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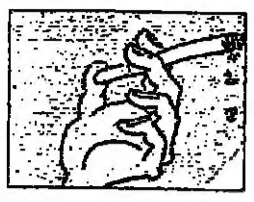
WEDNESDAY MARCH 31 1999



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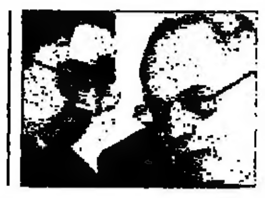

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WORLD NEWS

France asks US court to dismiss Holocaust lawsuits

France asked a US court to dismiss lawsuits against French banks by representatives of Jewish victims of the Holocaust. In an unusual move, the French foreign affairs ministry intervened in the disputes. **Europe, Page 3**

Japan's jobless rate jumps
Japan's jobless rate unexpectedly jumped last month to a high of 4.6 per cent and the government admitted that corporate restructuring would continue to push up unemployment. **Page 18; See Lex; Editorial Comment, Page 17**

EU growth forecasts downgraded
The European Commission revised down its forecasts for European Union growth this year but predicted that the slowdown would be short. **Europe, Page 3**

France Telecom workers in protest
More than 1,000 France Telecom workers demonstrated in Paris as unions representing the former monopoly operator's 143,000 staff called a one-day strike. **Europe, Page 3**

US city may sue cigarette makers
The city of Philadelphia is examining the possibility of suing cigarette manufacturers for the cost of fighting fires caused by discarded cigarettes. **US, Page 9**

Indonesia 'defaults on debt'
Indonesia has for the first time defaulted on its sovereign debt to the private sector, according to Standard & Poor's, the credit rating agency. **Asia-Pacific, Page 6**

Mexican banks set to plead guilty
Two of Mexico's leading banks were set to plead guilty before a US federal court judge in Los Angeles to money laundering charges stemming from the biggest investigation into the processing of drug profits in US history. **Latin America, Page 9**

Anwar's wife to form new party
The wife of Anwar Ibrahim, Malaysia's sacked, beaten and jailed deputy prime minister, said she will form an opposition party to challenge the Umno party that has ruled since independence in 1957. **Asia-Pacific, Page 6**

US aid 'at risk' over Khmer Rouge
Mitch McConnell, the influential US senator, warned Cambodia that US aid would be at risk if a trial of Khmer Rouge leaders did not measure up to international standards. **Asia-Pacific, Page 6**

Warning over child labour sanctions
The use of trade sanctions against goods produced by child labour in the developing world could be counter-productive and actually increase the hours worked by children, according to new research. **Trade, Page 4**

HK court rejects mainlanders' plea
A Hong Kong lower court rejected the application of 17 mainlanders who had sought to stay in the territory while seeking permanent residence status. **Asia-Pacific, Page 6**

Thailand boosts public spending
Thailand announced a Bt130bn ($3.5bn) package of tax cuts and government spending aimed at calming an increasingly turbulent political environment. **Asia-Pacific, Page 6**

BUSINESS NEWS

Three Japanese companies collapse with $10bn debts

Apollo Leasing, Asahi Urban Development and Fuji Building filed for bankruptcy with collective liabilities of more than Y1,200bn ($10bn) as the shake-out in Japan's financial and real estate sectors gathered pace. **Companies and Markets, Page 19; Lex, Page 18; Tokai forgives Y220bn, Page 24**

US Federal Reserve left key US interest rates unchanged, opting for a steady course with the economy growing strongly as it enters its ninth year of expansion. **Consumer confidence, Page 6**

Enterprise Oil and Lasmo, the UK's two biggest independent oil explorers, called off protracted merger talks to create a British "super-independent" worth more than £3bn ($5bn). **Page 25**

AT&T, US telecoms operator, is negotiating with Chinese authorities to become the first foreign carrier to build and operate a telecoms network in China. **International trade, Page 4; EU go-ahead for BT link, Page 25**

Endesa, Spanish utilities group, won an 18-month battle to take control of Latin America's largest electricity holding company when shareholders in Enersis of Chile voted overwhelmingly to change the group's shareholding rules. **Companies and Markets, Page 19**

Fiat, Italy's largest manufacturing group, announced two acquisitions to establish itself as world leader in automated production systems for the automotive industry and to consolidate its control of Toro insurance company. **International, Page 21**

Imperial Chemical Industries of the UK is expected to retain a minority stake in the businesses it is planning to sell to Huntsman of the US. **Companies and Markets, Page 19**

Hyundai and Daewoo, of South Korea, are to submit new restructuring plans to creditor banks today after the government criticised their use of doubtful accounting methods to reduce debts. **Companies and Markets, Page 19**

All Nippon Airways, Japan's second biggest airline, warned that losses this year would be more than double earlier forecasts. **Asia-Pacific, Page 24**

BMW gave a cautious outlook for 1999, mostly due to the expected falling global demand for passenger cars and continued difficulties at its UK Rover unit. **International, Page 21**

Bank Hapoalim, Israel's biggest bank, said a decline in doubtful debt provisions during 1998 helped it lift net income 3 per cent during 1998 despite an economic slowdown. **Page 21**

Lex on Viag-Alusuisse
Timely death of the deal from hell
Page 18

Nato rejects Kosovo offer by Milosevic as inadequate

By Guy Dinmore in Belgrade, Haig Simonian in Bonn and David Buchan in London

President Slobodan Milosevic last night offered to pull back some of his forces from Kosovo if Nato stopped its bombing campaign.

This first crack in the Yugoslav leader's defiance came after a six-hour mediation attempt in Belgrade by Yevgeny Primakov, the Russian prime minister.

Shortly after Mr Primakov left Belgrade for Bonn, air raid sirens sounded again as Nato warplanes embarked on a seventh night of strikes on Serbian forces in Kosovo. Nato, meanwhile, accused the Serbs of launching "a great terror" against Albanian Kosovars and forcing nearly 100,000 to flee.

Mr Milosevic's peace overture, reported on Belgrade television, met with considerable scepticism in Nato capitals.

The Yugoslav president said refugees were welcome to return – but German officials noted that Yugoslav border guards were making that impossible by removing their passports and identity cards as they left the country.

"We could not accept Milosevic simply calling a ceasefire, leaving him in control of the territory he has cleansed of the Kosovo Albanians," Robin Cook, Britain's foreign secretary, said earlier yesterday. He stressed that any settlement would have to involve the return of refugees with international guarantees.

Arriving in Bonn, Mr Primakov claimed that Mr Milosevic was ready to discuss "all issues" in direct "constructive" negotiations, provided Nato called off its attacks. But Gerhard Schröder, the German chancellor, said after his meeting with the Russian prime minister: "What Mr Primakov offered is no basis for a political solution, at least not in the form it was offered to me. There has to be a complete withdrawal of military and paramilitary forces from Kosovo." The United Nations refugee agency said some 94,000 ethnic Albanians had been forced out of the country since Nato started bombing Yugoslavia last Wednesday and Serb security forces stepped up their assault.

A refugee and her grandson flee the fighting in Kosovo yesterday Reuters

The Nato spokesman likened Serb tactics to what happened in Cambodia in the 1970s, when Pol Pot's Khmer Rouge virtually emptied Phnom Penh of its inhabitants.

He cited reports claiming that Pec, Kosovo's second city, had been almost destroyed, that people in the southwestern city of Prizren were being forced to march to Albania, and that in a wide area between the two cites the Serbs had launched a major assault to drive ethnic Albanians out of the country.

For the first time on Monday, the US sent low-flying A-10 tank-buster planes into action. Nato officials claimed yesterday they had hit some Serb tanks.

Mr Milosevic's move followed a claim by Alain Richard, the French defence minister, that more than 50 per cent of Yugoslavia's air defences had been destroyed, as well as a similar proportion of its MiG fighters.

Yugoslavia accused of terror, Page 2; Confusion's masterpiece, Page 16

Disarray at WTO as members try to select new head

By Guy de Jonquières

Efforts to decide on a new head of the World Trade Organisation were in disarray last night after diplomats in Geneva said several members opposed the appointment of Supachai Panitchpakdi of Thailand.

Diplomats said the two ambassadors in charge of the selection process were making an 11th-hour attempt to forge a consensus around Mike Moore, a former New Zealand prime minister.

Some officials doubted that the WTO's 134 member states, which must reach a decision by today, could agree by this evening's deadline and said there was a strong possibility of deadlock.

The confusion was compounded by signs that an agreement by 14 of the European Union's 15 members to support Mr Supachai, announced on Monday by Germany, was unravelling amid recriminations among EU governments.

Sweden, said to be the lone dissenter, insisted that the agreement, announced at the end of a meeting of EU and Asian foreign ministers in Berlin, was not a binding decision and that several other EU members had indicated they would continue to back Mr Moore for the job.

France also denied yesterday that it had a favoured candidate. The French authorities were said to resent what they considered an unjustified attempt by the European Commission and the German EU presidency to railroad member governments into unanimity at the Berlin meeting.

Ambassadors to the WTO from EU member states ended a meeting in Brussels last night with no agreed position on a candidate for the WTO post. They were due to resume this morning.

Trade diplomats said the two WTO ambassadors in charge of the selection system told governments yesterday that they had concluded that no consensus could be formed in favour of Mr Supachai because of objections by "more than one member". The objectors were not named, though some trade diplomats suggested they might include the US and France.

Hope for China deal, Page 4

Drinks groups in €1.2bn global link

By John Willman, Consumer Industries Editor

Two European spirits companies yesterday joined one of their largest US rivals to announce a global distribution alliance that will be in the top five drinks groups in most of the world's largest markets.

The new venture brings together Highland Distillers of the UK, producer of Famous Grouse scotch whisky, and Rémy-Cointreau, the French cognac and champagne house, with Jim Beam Brands Worldwide, the US company that makes the best-selling Jim Beam bourbon. It will distribute all three companies' products outside the US while leaving brand management to the individual partners.

The alliance is the first significant move to consolidate the global drinks industry since Grand Metropolitan and Guinness merged at the end of 1997 to form Diageo, the world's largest spirits group.

Discussions between other large companies such as the UK's Allied Domecq and Seagram of Canada have produced no further mergers in the 15 months since Diageo was created. Talks are believed to have foundered on issues of control, with most of the large drinks groups still dominated by founding families.

The venture, so far unnamed, brings together three partners that have brands that are largely complementary, with the prospect of cost-savings on distribution and higher sales through a portfolio containing a wider range of products. "This shows the guys who are going to get together are the guys with no major conflicts of interest," said Michael Bleakley, drinks analyst at CSFB. "For the mid-tier players, it's a very good deal."

The combined portfolio will handle 16m nine-litre cases a year, with sales worth €1.2bn ($1.3bn). In addition to Famous Grouse and Jim Beam, it will have Rémy-Martin cognac, Cointreau liqueur, Piper-Heidsieck champagne, Macallan malt whisky and several vodkas.

The partners will put their distribution operations into the venture, which will be run by independent management based in Amsterdam. Rémy's organisation, strong in continental Europe and Asia, will form the basis for the new company in most of the world. Highland's network will provide the core for the UK while Jim Beam, a division of Fortune Brands, a listed company based in Connecticut, will add its operations in Canada and Australia.

All three partners said the venture would be earnings enhancing in its first full year.

The three companies retain control over their brands and the right to veto the addition of rival products – a factor that could prove attractive to other potential partners in an industry dominated by family companies.

Bruno Mouclier, Rémy's chief financial officer, said a fourth partner was likely to be recruited once the venture is operating, which is expected to happen in the summer.

Lex, Page 18

Moscow seeks $75bn Soviet debt write-off

By John Thornhill and Andrew Jack in Moscow

Russia will ask its sovereign and commercial creditors to write off 75 per cent of its $100bn Soviet-era debt when it opens formal restructuring talks with them later this year, Yuri Maslyukov, first deputy prime minister in charge of the economy, said yesterday.

"We are in a condition to pay the debts of Russia," he said. "But we are not in a position fully to pay the debts of the Soviet Union. We would like them to forgive 75 per cent of the debt of the Soviet Union."

Mr Maslyukov's comments came a day after Moscow reached outline agreement with the International Monetary Fund about a fresh financial support package.

Any significant write-off of Russia's Soviet-era debt could spark controversy. The US administration is believed to have floated the idea of partial forgiveness but this has been fiercely opposed by Germany, which owns about half of the $60bn of Soviet sovereign debt.

"A straight forgiveness of 75 per cent of the debt looks pretty far-fetched," said one western official. "The Germans would only agree to it over their dead bodies." Mr Maslyukov predicted that the Russian government could resolve its outstanding differences with the IMF over a new programme by April 20. Subsequent IMF board approval would then permit restructuring talks with both the Paris and London Clubs of creditors.

The former Communist MP suggested Moscow would be flexible in its approach to restructuring its Soviet debt for a second time. "I think the figure might not be 75 per cent – it might be a little less," he said. "But all the economists of the IMF, the World Bank, and the experts of the Paris Club understand we cannot [pay all the Soviet debt] no matter what they may want of us."

Mr Maslyukov added that the Russian government needed to raise Rbs10bn of additional revenue to prove to the IMF that it was serious about strengthening its public finances.

He confirmed that Moscow would defer cuts in value added tax and propose five new tax laws and five legislative amendments to the Duma, the lower house of parliament, to satisfy the IMF. "I am sure that this work will not be easy but I am absolutely sure . . . the Duma will accept these suggestions."

Russian banks face lawsuits, Page 3
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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9961.27	(-45.51)
NASDAQ Composite	2502.95	(+10.11)
Europe and Far East		
CAC40	4141.98	(-11.67)
DAX	4856.84	(-20.06)
FTSE 100	6264.1	(+11.2)
FTSE Eurotop 300	1250.71	(-6.06)
Nikkei	15,859.12	(-149.72)
US Lunchtime RATES		
Federal Funds	4.975%	
3-mth Treas Bills: Yld	4.50%	
Long Bond	$94\frac{25}{32}$	
Yield	5.61%	
OTHER RATES		
UK: 3-mo Interbank	$5\frac{3}{16}$%	($5\frac{1}{4}$%)
UK: 10 yr Gilt	110.34	(110.37)
Euro Euribor	2.981	(2.985)
Germany: 10 yr Bund	97.76	0(97.78)
Japan: 10 yr JGB	101.817	(101.887)
NORTH SEA OIL (Argus)		
Brent Dated	$14.48	(14.44)

GOLD		
New York Comex	$280.3	(280.3)
London	$279.85	(281.15
DOLLAR		
New York: Lunchtime		
£	1.6118	
€	0.9323	
SFr	1.4883	
Y	120.026	
London		
£	1.6137	(1.6166)
€	0.9292	(0.9331)
SFr	1.4843	(1.4871)
Y	120.44	(119.71)
Tokyo Close		Y 120.08
EURO (London)		
$	1.0762	(1.0717)
£	0.6669	(0.6621)
Y	129.616	(128.293)
SFr	1.5974	(1.5935)

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Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	Ikr265	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr16.00	Latvia	Ls1.65	South Africa	R15
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.95	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft350	Norway	NKr19.00	UAE	Dh13.00

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KOSOVO CRISIS

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Yugoslavia accused of 'Great Terror'

By Frances Williams in Geneva, Neil Buckley in Brussels and Stefan Wagstyl in London

Nato yesterday accused Yugoslavia of conducting a "modern day Great Terror" in Kosovo, as Serb forces continued their scorched earth campaign and tens of thousands more people fled the strife-torn province.

The Nato claim was backed by tough statements from the United Nations High Commissioner for Refugees (UNHCR), which accused Serb forces of an organised "campaign of ethnic cleansing" in Kosovo.

Jamie Shea, Nato spokesman, warned that a "human disaster of enormous proportions" was unfolding in Kosovo. "I think we could talk about a modern-day Great Terror going on in Kosovo at the moment."

The UNHCR appealed for aid for refugees pouring across mountain passes into neighbouring countries. It said 94,000 people had left Kosovo since Nato started bombing on March 24 and many more were on their way, mainly to Albania.

More than 500,000 people have left their homes in the last year, including 200,000 still in Kosovo, said the UNHCR. About 100,000 of those who had fled Kosovo had moved to western Europe, leaving about 200,000 in the Balkans, outside Kosovo.

Kris Janowski, UNHCR spokesman, said: "If hundreds of thousands more are displaced, we're going to have an exodus of perhaps one fourth... of Kosovo's population. We do believe that there is a campaign of ethnic cleansing, quite well organised, with people being pushed out of their homes, and the border being simultaneously opened so they can leave."

Mr Shea said Nato had reports that Pec, a city of 100,000 people, had been "almost totally destroyed". There were also reports of "thousands of people" forced to leave the town of Prizren.

Mr Shea claimed Serb forces were forcing people from their homes in an organised way, providing evidence that the plans had been laid long before Nato bombing started. Nato is keen to dismiss suggestions that the bombing provoked the latest wave of terror against the Kosovo Albanians.

On the border between northern Albania and Kosovo, refugees gave harrowing accounts of murder, robbery and humiliation by Serb gunmen.

"Serbian paramilitaries are killing everybody who refuses to leave their homes," Adem Basha, a man from Kosovo's second city of Pec, said after crossing into Albania at the Morina border post near Kukes, about 250km north of Tirana. "There are lots of unburied people in Pec," he told Reuters. "The Serbs have settled in the best houses of Pec, which is now 'ethnically cleansed'. Tell the world!"

Another refugee, Bardhyl Kabashi, said 15,000 displaced ethnic Albanians from several towns and villages had sought refuge on a hill near the village of Celine in Kosovo. "The Serbs came to the hill above Celine at midday yesterday shooting in the air and telling everybody to sit face down, hands on their heads.

"They shot over their heads, then forced everybody to stand up, raise their hands in the air to make the Serbian sign with three fingers, thumb, middle finger and index finger, and chant 'Serbia, Serbia'." He said he saw one man killed for refusing to chant while three other men were pulled away and shot from behind.

However, refugees arriving in Macedonia painted a somewhat different picture, with most saying they had left of their own accord in fear of the Serbs, rather than being ordered out.

NEWS DIGEST

GERMAN PACIFISM

Green party divided over military participation

Germany's Green party was showing signs of strain yesterday as it attempted to come to terms with Germany's participation in the Nato air strikes in Yugoslavia.

Helmut Lippelt, the party's foreign policy spokesman, indicated the German parliament would have to face approving ground troops if Nato decided this was required to stop ethnic cleansing in Kosovo. "We will not be able to resist the pressure much longer if Kosovo keeps burning," Mr Lippelt told German radio. "Parliament must be ready in the face of this inferno."

But opinion is deeply divided within the traditionally pacifist party, which shares power with Chancellor Gerhard Schröder's Social Democrats in Bonn. Antje Radcke, co-leader of the party, yesterday called on Nato to stop its military strikes and return to the negotiating table. Ms Radcke said the Greens could not support an escalation of hostilities and questioned whether air strikes had prevented civil rights abuses or the refugee crisis in the region. She said the Greens would remain part of the government so long as they believed they could influence policy to bring the conflict to an end. However, while she acknowledged the Greens faced a dilemma, she said she did not fear a split. **Haig Simonian, Berlin**

JEWISH REACTION

Israel fails to condemn Serbia

Israel yesterday again fell short of directly criticising Serbia's offensive against Kosovo and instead, after growing public pressure, condemned "mass murder that is done by the Serbs or any other party". The less than explicit criticism of Serbia by either Benjamin Netanyahu, Israeli prime minister, or Ariel Sharon, foreign minister, has astonished a younger generation of Israeli diplomats as well as opposition parties, who said they were "more than disappointed" with the government's stance.

Government officials privately said Israel's reaction "was confused, caught up in history and ambiguous". They said one of the reasons for such hesitation in openly criticising Slobodan Milosevic, Yugoslav president, went back to the second world war, when Serbs saved many Jews while neighbouring Croatia killed some 30,000. "Maybe we still owe Serbia something," said an official.

Israeli officials cited another reason for not criticising Serbia, claiming that Iran and Islamic fundamentalists were involved in the conflict. Earlier this week, Mr Sharon told European Union ambassadors: "In this region [the Balkans], there are extreme Islamic groups... Hizbollah... mujahideen forces". **Judy Dempsey, Jerusalem**

MADRID DEBATE

Spain gives broad backing

Spain's parliament yesterday gave broad backing for Nato's bombardment of Yugoslavia, although the government said it had no plans for increasing Spanish participation. Four F-18 combat jets and a tanker aircraft from Spain have taken part in the operation. José María Aznar, prime minister, pledged commitment to Nato, but warned there was no guarantee the intervention would succeed.

The government's regionalist allies voiced their support, as did the main Socialist opposition. However, José Borrell, Socialist leader, said he had no enthusiasm for the campaign, which he called "a necessary evil". He also complained the government was acting "more like a subordinate than an ally", and berated it for taking so long to bring the issue to parliament.

The Kosovo crisis was discussed in a debate also dealing with the outcome of the European Union's Berlin summit. This, Mr Borrell said, was "mixing war with sunflowers". **David White, Madrid**

RUSSIAN POSITION

Yeltsin calls for peaceful solution

By Andrew Jack in Moscow

Boris Yeltsin, the Russian president, yesterday definitively *ruled out any Russian* military intervention in the conflict in Yugoslavia.

Speaking in his annual state of the nation address to both houses of parliament, Mr Yeltsin began by criticising the Nato air strikes in Yugoslavia and called for a swift and peaceful resolution to the crisis there.

"More and more political leaders understand that in such situations, brute force does not achieve anything," he said during the 20-minute speech. "Russia has made its choice. It will not allow itself to be drawn into a military conflict." He said it had been his decision to send Yevgeny Primakov, prime minister, to negotiate with Slobodan Milosevic, Yugoslav president, yesterday.

Mr Yeltsin went on to place emphasis on the need for solutions to domestic problems as the way to improve Russia's weight abroad. He called for "order in government, accord in society, stability in the economy and the social sphere".

He stressed the need to give top priority to the "economic competitiveness of Russia", and to create a country in which people "should be confident of the power of law and the stability of economic rules". He called for measures to revive economic initiative and the decentralisation of power to the country's regions.

Mr Yeltsin also criticised the Communist-dominated parliament for failing to adopt the previous government's economic programme last summer ahead of the August financial crisis. "We have become stuck half-way in our transition from the planned and command economy to a normal market economy. We've created a freakish model," he said.

He also urged a clamp down on electoral corruption, and called for "the appearance of new personalities in the Russian political corps" through general elections, which he said would be "clean and honest".

President Yeltsin, who has suffered from bouts of ill health in the last few months, spoke slowly but firmly and appeared in reasonable health, wearing the glasses he has adopted in recent weeks.

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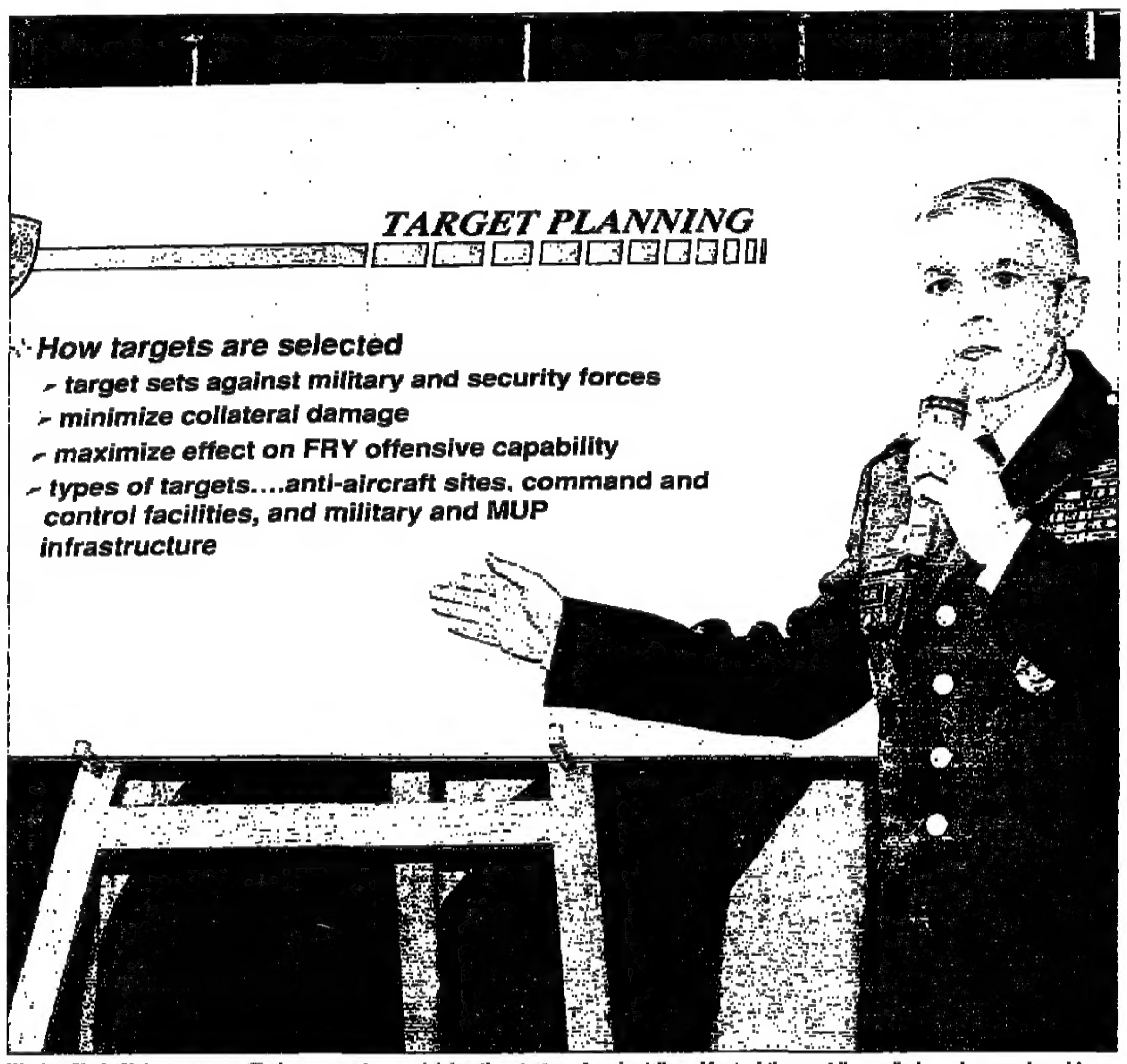
With the truth unverifiable, propaganda triumphs

Nato is exploiting the jingoism of the western media while Belgrade relies on the state-controlled broadcaster, writes **Guy Dinmore**



Wesley Clark, Nato supreme allied commander, explaining the strategy for air strikes. Most of the world's media have been reduced to reporting from the borders of Serbia or relying on briefings by Nato commanders in Brussels or US officials in Washington

As a media event, the war over Kosovo is a sterile, faceless affair. The citizens of the Nato alliance *cannot see the Serbs that* their aircraft have killed. Serbia's state-run television, while showing ruined civilian homes, shields its viewers from bloodied corpses that might spread panic among an already highly-strung population.

Along with the bombs and missiles, a propaganda war is developing between the two sides. Nato is exploiting the jingoistic tendencies of western broadcasters, while Belgrade relies, as it always has, on the tightly controlled Radio Television Serbia (RTS).

Few Serbs are aware of the scale of the refugee crisis in Kosovo province because RTS shows no images. In occasional references to displaced ethnic Albanians, it explains that they are fleeing Nato bombing raids.

Both sides are able to exploit the absence of foreign reporters in Kosovo. Perhaps only one is still there after most fled or were expelled last week when the Nato bombings began. Government leaders, such as Britain's Tony Blair, can talk freely in parliament about the "massacres" of ethnic Albanians in Kosovo, as recounted by refugees, because no one is able to *confirm or deny them* independently. Similarly, Nato claimed on Monday that Fehmi Agani was among five prominent ethnic Albanians executed by Serbs on Sunday, although one close colleague of Mr Agani in Pristina, Kosovo's capital, told the FT he had seen the respected ethnic Albanian leader alive and well on Monday morning.

In Belgrade, the 20 or so foreign reporters who ignored an expulsion order issued by an ultra-nationalist information minister last week have been barred from visiting bomb sites or denied information from hospitals when trying to verify Serbian claims that many civilians have been killed.

RTS has shown plenty of heart-wrenching images of crying women and children outside the ruins of their homes but no independent confirmation of this has been possible. Officials claimed on Tuesday that many people had been killed in bombing raids in Pristina *the night before, but no* corpses were displayed.

Similarly, a Serb general claimed on Tuesday that Serbia's armed forces had downed seven Nato aircraft and three helicopters. Many Serbs believe this, especially after the confirmed shooting down on Saturday of a US F-117 Nighthawk "stealth bomber", although no evidence has been shown of other hits.

Most of the world's media have been reduced to reporting from the borders of Serbia or relying on briefings by Nato commanders in Brussels or US officials in Washington. The result may be an unjustifiably easy ride for Nato.

Distortion of important background by western broadcasters, whether intentional or not, has also helped Nato's cause. Britain's Sky TV, for example, mentioned the 1,400 international monitors who were, it said, "expelled" from Kosovo and unable to verify what was really going on. In fact, the *Organisation for Security* and Co-operation in Europe, under pressure from the head of mission, William Walker, US ambassador, ordered its own monitors to leave. Their departure, say many of the unarmed observers privately, was a disastrous decision that propelled Kosovo towards further violence.

The stated aims of Nato's bombing campaign have also been muddied, by both heads of government and the western media. A common phrase heard on the lips of correspondents of CNN, the US network, is "forcing Yugoslav President Slobodan Milosevic to return to the negotiating table". Yet Madeleine Albright, US secretary of state, and Robin Cook, British foreign secretary, made it clear after the breakdown of peace talks in Paris this month that the autonomy deal offered by the west – and signed by the Kosovo Albanians – was no longer negotiable. There was in reality no table to return to.

Emotive language used by both sides is remarkably similar. Bill Clinton, US president, drew parallels between the "ethnic cleansing" committed by Serbs and the mass killings by Germany's Nazis in the second world war. George Robertson, British defence secretary, has accused the Serbian regime of waging "genocide", although as one US commentator has claimed, the death toll from a year of war in Kosovo – around 2,000 or so from a population of 2m – amounted to less than the murder rate in Washington DC in 1994.

For the Serbs, whose families were exterminated in their hundreds of thousands (the real figure is still hotly disputed by historians) in Nazi and Croatian death camps, allegations of "genocide" touch a raw nerve. In return, RTS routinely compares Mr Clinton with Hitler and the most common graffiti daubed on western *embassies in Belgrade are* swastikas.

RTS ignores all evidence presented over the past year of village-burning carried out by Serbian security forces, claiming instead that the ethnic Albanians were torching their own homes, or even that fires were lit close to their farms to give a false impression of mass destruction when viewed by western television crews from afar.

More subtle is the choice of Hollywood movies shown on Serbian channels this week: *Wag the Dog*, about an American president who fabricates a war in Albania to detract attention from his personal problems; *Apocalypse Now*, a Vietnam epic exposing the brutality and contradictions of war; and yesterday, what else could it be but Charlie Chaplin's *The Great Dictator*.

MARKET REACTION EURO RECOVERS GROUND AFTER 'KNEE-JERK' RESPONSE TO AIR STRIKES

Asset prices suffer limited impact

By Alan Beattie and Edward Luce in London

The effect of the Kosovo conflict on asset prices has been overstated, many analysts have said. Apart from the countries bordering the region which might have to bear the consequences of fleeing refugees, the impact has been limited.

The euro fell at the end of last week and again on Monday. But it recovered much of the lost ground yesterday. Data showing a continued weakening in euro-zone economic performance, together with a stream of concerned comments from European Central Bank board members, have been seen by many *as the main causes* behind the fall.

"As far as the euro goes, Kosovo is just a knee-jerk excuse to add to the general bearish mood on the currency," said Brian Martin, currency strategist at Barclays Capital in London. "Unless the conflict escalates to disastrous proportions, such as the Russians aiding Serbia, the direct impact is likely to be limited."

The financial markets seem only to have singled out individual countries directly at risk from the conflict and marked assets down accordingly. After holding up well towards the end of last week, the Greek drachma came under more pressure this week. Hungary, which shares a border with Serbia, has also seen heavy sales of its currency, the forint, and last Friday postponed the launch of a *$750m global bond in* response to the bombing.

Meanwhile, the price of Bulgarian and Polish government dollar bonds have dropped by between four and six per cent since last Thursday, while the price of Latin American debt has risen. "Investors are switching out of eastern Europe to Latin American debt," said James McKny, head of research at the Commonwealth Bank of Australia.

But even here the movements of money are not large. Avinash Persaud, global head of research at State Street, said portfolio flows did not show a large stampede out of affected areas. "There has been money leaving countries like Poland and Greece, but no more so than for the past couple of months," he said. "There is little supporting evidence of acceleration in outflows as a result of Kosovo."

The effect on the euro is even less clear. Monday's INSEE survey showed French manufacturers increasingly despondent about economic prospects, and the European Commission's economic forecast yesterday revised down growth predictions for the eurozone.

Expectations are now rising that the ECB will be forced to cut interest rates at their next meeting on April 8. This by itself can easily explain the weakness in the euro, says Philippe d'Arvisenet, chief economist at the Banque Nationale de Paris.

Western bond markets have been similarly subdued in response to the Kosovo bombing. However, investors have switched money into shorter-dated government bonds of two or three years at the expense of 10-year government bonds. This is a standard response to uncertainty. "The shorter end of the yield curve is more liquid and is the best place to be when the market is uncertain," said Alison Cottrell, chief international economist at PaineWebber in London. The yield on the two-year US Treasury has fallen by six basis points since the bombing started while the yield on the 10-year Treasury has risen by several basis points. The same pattern applies to German and French government bonds.

The US, a country with greater experience of the effects of a protracted land war on financial markets, has been more pessimistic. The sharp dips in the euro yesterday and on Monday occurred just as the US trading session opened, after quiet morning trading in Europe. "The US knows that war is expensive," said Stewart Newnham at Commerzbank in London. "The Vietnam war drove up public spending and hence long-term interest rates, which rose by 2½ per cent between 1965-68."

FRENCH CO-OPERATION FULL BACKING GIVEN

Paris sets aside caution over Nato

By Robert Graham in Paris

France's long-standing wariness of co-operating with an American-dominated Nato has been set aside as its military play a full part in the airborne offensive in Yugoslavia – at least temporarily.

The domestic sensitivity of French participation in the air bombardment has been underlined by the appearance on television of President Jacques Chirac four times since the onset of hostilities. Each time he has justified the resort to force against Slobodan Milosevic, the Yugoslav president.

Mr Chirac has also been careful to ensure co-ordination with Lionel Jospin, the Socialist prime minister, with whom he jousts on a number of other issues.

Both have argued that France – host of the abortive Rambouillet talks for a political solution in Kosovo – was left no option by the obstructive tactics of Mr Milosevic but to endorse Nato plans for an attack. In a television address on Monday, Mr Chirac also sought to prepare the nation for the risks involved in the offensive.

Both the president and prime minister have made it clear they have not despaired of a diplomatic solution. "We prefer dialogue and peace with a political solution," Mr Jospin told parliament yesterday. "But how can one achieve a political solution and have a dialogue when the Serb leadership and Mr Milosevic refuse it?"

This line has so far been backed by the bulk of the political establishment on the left and right. Mr Jospin has told cabinet members who question the use of force in the Balkans to avoid raising their doubts in public. As a result, the four Communist ministers have observed a discreet silence even though Robert Hue, the party leader, has openly attacked the military venture and backed protest demonstrations.

Also restraining himself has been Jean-Pierre Chevènement, the interior minister, who resigned eight years ago as defence minister in protest over French participation in the American-led "Desert Storm" campaign against Iraq.

The French media initially were far more critical of the military operation than the politicians – focusing on the lack of clear objectives behind the air strikes and the control exercised by the US over the operations.

Since the weekend, however, press criticism has been more muted and opinion polls indicate reluctant backing for the venture. A poll for L'Express magazine yesterday showed 58 per cent backed the sending of ground troops if the air attacks failed to stop ethnic cleansing in Kosovo. Such support for ground action comes despite 70 French troops being killed in Bosnia.

France wants Holocaust suits dropped

By Samer Iskandar in Paris and Richard Wolffe in Washington

France yesterday asked a US court to dismiss lawsuits against French banks by representatives of Jewish victims of the Holocaust.

In an unusual move, the French foreign affairs ministry intervened to defuse a conflict between French private sector companies and US-based individuals and associations.

The ministry submitted a so-called "Amicus" – or "friend of the court" – brief, asking a US federal court to dismiss two class action suits by representatives – or heirs – of Jews whose assets were confiscated in Nazi-occupied France during the second world war. It said US litigation linked to French events was "misguided and wrong".

Lawyers representing Holocaust victims in New York dismissed the French government's intervention. One lawyer said: "They contend that we are violating their sovereign immunity, but we are not suing the government of France. We are suing individual banks that do a lot of business in the US and were operating in Vichy France at the time."

The government's intervention follows growing tension between US-based Jewish associations and the French banking community, united under its trade body, the Association Française des Banques (AFB). It also comes a day after French regulators cleared plans to create one of the world's biggest banks by merging the country's three largest listed banks – Banque Nationale de Paris, Société Générale and Paribas.

In its memorandum to a US federal court, the government claims the litigation "directly affects France's sovereign interests".

US associations representing the Jewish community have criticised the pace of French efforts to identify dormant bank accounts and safe deposit boxes. They are also threatening to delay US regulatory approval of the mergers until the banks negotiate a settlement.

Last week the AFB, representing 106 of its members active during the second world war, confirmed its commitment to co-operating with the Mattéoli commission, a government-sponsored working group. The commission is to make recommendations on the nature and amount of compensation to Holocaust victims after an investigation due to be completed by the end of the year.

However, the US associations, the most vocal of which is the World Jewish Congress, are increasing pressure on French banks to negotiate a settlement. Two class action suits have been filed since December 1997 against French banks with a large US presence.

EUROPEAN COMMISSION SPRING FORECASTS THREE-PRONGED STRATEGY ON BOOSTING EU EMPLOYMENT

'Caretakers' advise how to improve economies

By Peter Norman in Brussels

The European Commission decided yesterday that the "caretaker" duties imposed by the mass resignation of commissioners this month should not prevent it from telling European Union member states how to improve their economic policies and performance.

In its recommendation for broad economic policy guidelines to be adopted at the next EU summit in June in Cologne, the Commission said it was more important to develop the key reference text for co-ordinating economic policies among the EU's 15 member states than to worry about whether it was adopting too "political" a role in its present state.

Alongside a broad, three-pronged strategy on how to boost employment, the Commission has strengthened its specific advice to individual countries.

The Commission called on Italy, France, Germany and the Netherlands to pay particular attention to meeting the annual budgetary targets in their national stability programmes because of a risk of slippage. Germany, Italy, Austria, the Netherlands and Portugal were urged to be more ambitious and update their "minimal budgetary targets".

Belgium, Italy and Greece were advised to maintain high primary surpluses, supported by privatisation policies, because of their high levels of public debt as a share of gross domestic product.

Spain, Italy, Luxembourg, Portugal and Finland were urged to review the financial sustainability of their pension and healthcare systems in the face of ageing populations. The Commission told Greece, Spain and Italy to make efforts to reverse the decline in public investment while Greece, Spain, Ireland and the UK were urged to do more to strengthen research and development spending.

For the second strand of its strategy, the Commission demanded economic reforms to improve the operation of goods, services and capital markets. Its guidelines urged Denmark, Greece, Italy, Austria, Portugal and Finland to open up public procurement; France, Ireland, Luxembourg, Austria and Portugal to liberalise public utilities and telecommunications; and Germany, Spain, France, Italy, Luxembourg and Portugal to control strictly state aids. Denmark, Germany, Greece and Austria were told to make further progress with tax reform.

The Commission also underlined the importance of deregulation, urging Germany, Denmark, the Netherlands, Austria, Portugal and Sweden to relax restrictions on retailers. Germany, Spain, Greece, France, Italy, the Netherlands and Austria were asked to ease problems for people setting up new businesses.

The third prong of the Commission's strategy involved "active policies to modernise labour markets". It called on Ireland, Italy and Portugal to improve training and education, while Denmark, Germany, France, Italy, the Netherlands, Austria, Finland, Sweden and the UK should reduce taxes and other charges on low-paid workers. Belgium, France, Italy, Portugal and Sweden were urged to review the duration and eligibility conditions for benefits.

The Commission said its three fundamental principles were "at the heart" of work in developing a European Employment Pact that is due to be agreed at the Cologne summit.

Economic forecasts for the EU and euro-zone*

	Spring 1999								Difference with autumn 1998			
	1997		1998		1999		2000		1999		2000	
	EUR 11	EU 15	EUR 11	EU 15	EUR 11	EU 15	EUR 11	EU 15	EUR 11	EU 15	EUR 11	EU 15
GDP growth	2.5	2.7	3.0	2.9	2.2	2.1	2.7	2.7	-0.4	-0.3	-0.2	-0.1
Employment	0.2	0.5	1.1	1.1	0.8	0.8	0.9	0.8	-0.1	-0.1	-0.1	-0.1
Unemployment rate**	11.6	10.6	10.9	10.0	10.4	9.6	9.8	9.2	0.0	0.1	0.0	0.2
Inflation***	1.5	2.1	1.4	1.5	1.2	1.3	1.5	1.6	-0.4	-0.4	-0.2	-0.2
Government deficit	-2.5	-2.3	-2.1	-1.5	-1.9	-1.5	-1.7	-1.3	0.0	-0.1	0.0	-0.1
Government debt	75.1	71.7	73.4	69.7	72.6	68.5	71.2	67.0	0.1	-0.4	0.3	-0.3
Current account balance†	1.8	1.5	1.7	1.2	1.5	0.9	1.4	0.9	-0.4	-0.5	-0.4	-0.5

* Real annual percentage change unless otherwise stated ** Percentage of the labour force *** Private consumption deflator † % GDP

Source: EU Commission

De Silguy: unruffled by euro

Growth forecasts revised downwards

By Peter Norman

The European Commission yesterday revised down its forecasts for European Union growth this year but predicted that the slowdown would be short and the EU economy would continue to create jobs over the next two years.

Presenting the Commission's spring forecasts, Yves-Thibault de Silguy, the acting commissioner for economic and monetary affairs, said the negative effects of weaker export demand and slower growth in capital investment would be more than offset by positive factors. These included growing investment in construction, robust growth of 2.6 per cent in private consumption, an upturn in public spending, low inflation and low interest rates in Europe and a gradual recovery in the world economy.

The Commission revised down its forecast for this year's growth in the 15 member states by 0.3 percentage points to 2.1 per cent compared with its previous forecasts of October last year.

In addition, it cut its forecast growth for the euro-11, those 11 countries that belong to the euro-zone where the single currency is used, by 0.4 points to 2.2 per cent.

Assuming unchanged policies, the EU's executive body's "scenario" for 2000 envisages growth of 2.7 per cent for both the Union of 15 and the euro-zone, respectively 0.1 percentage points and 0.2 points less than in October last year. Such growth would be close to the levels of last year, when EU 15 gross domestic product grew a real 2.9 per cent and that of the euro-zone by 3 per cent.

In spite of slower growth in 1999, the Commission forecast a 0.8 per cent increase in employment both this year and next for the EU 15 and 0.9 per cent each year in the euro-zone area.

The EU economy created 1.7m jobs last year when employment grew by 1.1 per cent. It is expected to create a further 2.5m jobs over the two years to the end of 2000. As a result, unemployment in the EU 15 could fall by 1.1m to 14.5m, or 9.2 per cent of the labour force, next year.

Mr de Silguy warned that greater efforts should be made to reduce budget deficits, especially in the euro-zone.

The commissioner delivered the forecasts in a "caretaker" role as he resigned on March 16 with the rest of the EU's top executive.

Mr de Silguy rejected suggestions that the EU could be at risk from deflation. Although consumer price inflation in the EU is expected to fall this year to 1.3 per cent, its lowest level since the second world war, the Commission expects a slight pick-up in inflation to 1.6 per cent next year as growth accelerates.

Mr de Silguy was also unruffled by the current weakness of the euro, saying it reflected stronger than expected US growth rather than problems in Europe.

Russian banks 'face new threat'

By Andrew Jack in Moscow

Russian banks that survived the financial crisis last August are facing renewed threats following legal action by foreign creditors to seek reimbursement of forward contracts, a brokerage warned yesterday.

Troika Dialog, a Moscow-based investment bank, said solvent banks such as Vneshtorgbank and Avtobank might suffer from a spate of new litigation after the launch of a significant new lawsuit last week.

The Bloomberg agency reported that Indosuez International Finance BV, a subsidiary of the French-based Crédit Agricole, had begun proceedings against the Russian National Reserve Bank in the New York state supreme court at the end of last week to recover $111m in forward contracts between September 1997 and July 1998.

The action seems to indicate a new-found aggressiveness by foreign banks in seeking redress after the August crisis, following the release by the Russian government of details of the terms available to compensate foreign creditors.

Lehman Brothers won asset freezing orders last September in its moves against two Russian banks with which it had entered into forward contracts: Inkombank for $87m and Oneximbank for $26m, but the case has stayed on hold. Other actions have been started by Deutsche Bank.

Andrei Ivanov, an analyst with Troika, argued that now the Russian government's terms have been revealed, and they show there will be no preference to non-resident creditors on forward contracts, other legal actions may follow.

Russian banks are potentially liable for forward contracts with an underlying value estimated at $8bn, but until now there have been few claims. Banks have preferred to try to negotiate.

Mr Ivanov said the lack of legal actions reflected the unclear legal status of the contracts in Russian courts and the low ranking such creditors would have in bankruptcies. There was also the hope for a special deal in the broader Russian government proposals to reimburse creditors.

National Reserve Bank in Moscow refused to comment on the legal action, though one individual close to the bank indicated it was aware of the suit. Indosuez, uncontactable late yesterday, had an exposure of FFr2.64bn (€403m, $432.7m) to Russia last year.

Strike at France Telecom

By David Owen in Paris

More than 1,000 France Telecom workers demonstrated in Paris yesterday as unions representing the former monopoly operator's 143,000 staff called a one-day strike to protest over a range of issues.

The strike, the second one-day stoppage at the company in little more than two months, was the first time in nearly three years that all France Telecom unions had issued a strike call.

This suggested, in turn, that friction within the workforce – more than 80 per cent of whom are still civil servants – is rising as the 62 per cent state-owned group adjusts to the new competitive environment.

Spokesmen for two of the unions involved indicated the strike had been followed by 30-40 per cent of employees. France Telecom put the proportion of strikers at 28.2 per cent, little changed from 28.5 per cent in January.

There were three issues behind yesterday's action: unions' insistence that the implementation of a 35-hour work-week should create jobs; worker unhappiness at the company's plans to integrate a hitherto untaxed bonus; and opposition to company plans on tendering.

CONTRACTS & TENDERS

CHINESE PROJECT US COMPANY COULD BECOME FIRST FOREIGN CARRIER TO BUILD AND OPERATE NETWORK

AT&T in talks on telecom contract

By James Kynge in Beijing

Chinese authorities are in negotiations with AT&T, the US telecoms operator, over a deal that would see the US company become the first foreign carrier to build and operate a telecoms network in China.

Officials familiar with the deal said yesterday that it had been approved in principle by Zhu Rongji, the prime minister, over the past few days. Details of AT&T's plans were somewhat sketchy and might be altered in negotiations before any announcement was made, the officials added.

The US company may be granted a build-operate-transfer (BOT) contract to roll out a telecoms network in Pudong, a special economic zone in Shanghai that China has ambitions to turn into a leading financial and information technology hub. The project, which one analyst described as "very major" in terms of its investment value, has been under review by Chinese authorities for several years.

AT&T executives declined to comment other than to say that talks were under way in Shanghai yesterday.

Permission has been denied foreign companies to operate telecoms services in China. The award of such a deal in Pudong, one of the country's most promising business areas, could send a powerful signal to the US that Beijing is serious about opening its markets to foreign competition.

Among Chinese telecoms officials, though, the proposed AT&T project remains controversial because it is seen as relinquishing a jewel of China's development to foreign interests.

"This is extremely sensitive. I am not sure if it will be finally approved," said one telecoms official, who declined to be identified.

In spite of his remarks, there have been some signs of an easing in China's official stance toward telecoms sector investments by foreign companies. William Daley, the US commerce secretary, said that Chinese authorities this week offered foreign companies a direct equity stake in local telecoms companies if China succeeded in entering the World Trade Organisation (WTO).

Industry executives said that a ceiling on the proposed stakes has been initially set at 35 per cent for mobile telephone companies, higher than the 25 per cent Beijing has previously offered.

In another sign of China's increased willingness to embrace foreign competition, Mr Daley said he had received indications that insurance licences would be granted to probably two US companies to operate in China.

It is understood that other licences, perhaps as many as four, are to be awarded to companies in Europe and elsewhere in the developed world.

NEGOTIATIONS STICKING POINTS REMAIN ON OPENING UP CHINESE MARKETS

Hope for deal on WTO terms by next month

By Tony Walker in Washington

The US and China are striving to achieve agreement on China's accession to the World Trade Organisation in time for next month's visit to Washington by Zhu Rongji, the Chinese premier, but "non-trivial" issues remain on the table, according to a senior administration official.

Kenneth Lieberthal, director Asian Affairs at the National Security Council, said the administration "recognised fully" that unless any WTO agreement was strongly supported by US business it would fail politically.

His speech, which was delivered at a meeting of the Asia Society on the "future of US-China relations", coincided with guarded optimism in Washington of a WTO deal.

However, administration officials say China needs to make further concessions on market access for such items as vehicles; it needs to improve its offer on direct foreign investment in telecommunications; and also provide a stronger commitment to open its markets to agricultural imports.

The two sides are also working to bridge the gap on foreign access to the financial sector, particularly insurance.

After weeks of adverse publicity on such issues as China's alleged theft of nuclear secrets, Mr Lieberthal strongly defended the administration's policy of "constructive engagement with China".

He said that a collapse in relations would represent a "basic failure" of US diplomacy.

He rejected criticism that the US is seeking a political deal over WTO to disguise failures in US policy.

He said that any international institution to which China does not belong "falls at least 22 per cent short of being global" – a reference to China's 1.2bn population.

Mr Lieberthal described a commercially acceptable WTO deal as "good for Chinese interests". It would encourage further reforms and improve the domestic regulatory environment.

Chinese negotiations are returning to Washington this week in a final effort to hammer out details of an agreement before Mr Zhu's talks with President Bill Clinton next month.

WTO ENTRY ASSESSMENTS DIFFER

Puzzlement as US officials muddy picture

By James Kynge in Beijing

Confusion mixed with theatrics dominated the plot yesterday of high level US-China talks aimed at securing Beijing's entry to the World Trade Organisation.

The main source of puzzlement was that two senior US officials, William Daley, the commerce secretary, and Charlene Barshefsky, the US trade representative, differed significantly in their assessments of the chances that the two sides can hammer out a WTO deal after 13 years of trying.

Mr Daley told an audience of American businessmen in Beijing: "We want to do a deal and plan to do a deal under the right terms. If it is done this week, great. If it's not done this week, it will be done. It could be later on this spring. It could be before the WTO ministerial in Seattle in the fall."

Ms Barshefsky, who cancelled a news conference in order to catch her aircraft and be back in the US for Passover, the Jewish religious festival, was more guarded in a statement issued by the US embassy.

She said "important progress" had been made in her negotiations with Zhu Rongji, the Chinese premier, and Wu Yi, a state councillor responsible for trade, but she cautioned that "substantial gaps remain . . . in critical areas of trade, and there are complex issues in front of us".

Unlike Mr Daley, Ms Barshefsky offered no prediction that a deal would be made. But she did leave a team of negotiators led by Robert Cassidy, the assistant US trade representative, behind in Beijing for continued expert-level talks in the run-up to Mr Zhu's trip to the US from April 6-14.

A sense of expectation had built up among Beijing's press corps over Ms Barshefsky's one-day visit to the Chinese capital because she said she would make the trip only if there was a real chance of a WTO deal. But, in the end, her statement was elliptical, and did not directly address the chances of an agreement.

Some confusion had also attended the timing of her visit. She was initially scheduled to arrive at the weekend, but then delayed until Monday. Almost until the moment she landed, US officials were denying in public that she had any plans to come.

Observers in Beijing said that the mixed signals may have arisen from the need of top officials to play to different galleries.

Ms Barshefsky's job is to drive as hard a bargain with the Chinese as she can, meaning that any expression of satisfaction must be withheld until the eleventh hour.

As Washington's chief WTO negotiator, she must also be mindful that both US business and US trading partners such as the EU would hold her responsible for any soft package or sweetheart deal for the Chinese.

Mr Daley, by contrast, has his loyalties divided along somewhat different lines, observers said. He tries to please US business with predictions that the bounteous Chinese marketplace will become significantly more open to foreign competition.

He also needs to serve the White House, which is searching for evidence to subdue criticism on Capitol Hill that its policy of engagement with Beijing has borne little fruit.

To complicate matters further, both Ms Barshefsky and Mr Daley also have to have an eye on managing public expectations through the media. They have to prevent any breakthrough from being rendered stale by widespread leaks to the press. But to balance this, public attitudes need to be tested on the prospect of a deal.

Football manufacture in Pakistan, an industry that employs many children Network

Sanctions over child labour 'can backfire'

By Richard Adams in London

The use of trade sanctions against goods produced by child labour in the developing world could be counter-productive and actually increase the hours worked by children, according to new research.

Dr Sonia Bhalotra, an economist at the University of Bristol, said her research suggested child labour was driven by poverty and the need for families to earn a minimum income.

Dr Bhalotra, who has studied child employment in rural Pakistan, said: "If their hourly wage drops, they almost exactly make up the implied loss in income by working longer hours."

That implies that poverty, rather than choice, drives children to work: "This contrasts with commonly observed behaviour in richer populations where, having met survival needs, people tend to work less at lower wage rates."

As a result, trade bans on goods produced by child labour could have the unintended effect of forcing the children into other paid work at a lower wage.

The surveys in rural Pakistan found that a third of the child population work for their family. In addition, 12 per cent of girls and 6 per cent of boys between the ages of 10 to 14 are in paid employment.

The percentage rises to 14 per cent of girls and 18 per cent of boys in the 15-17 age group.

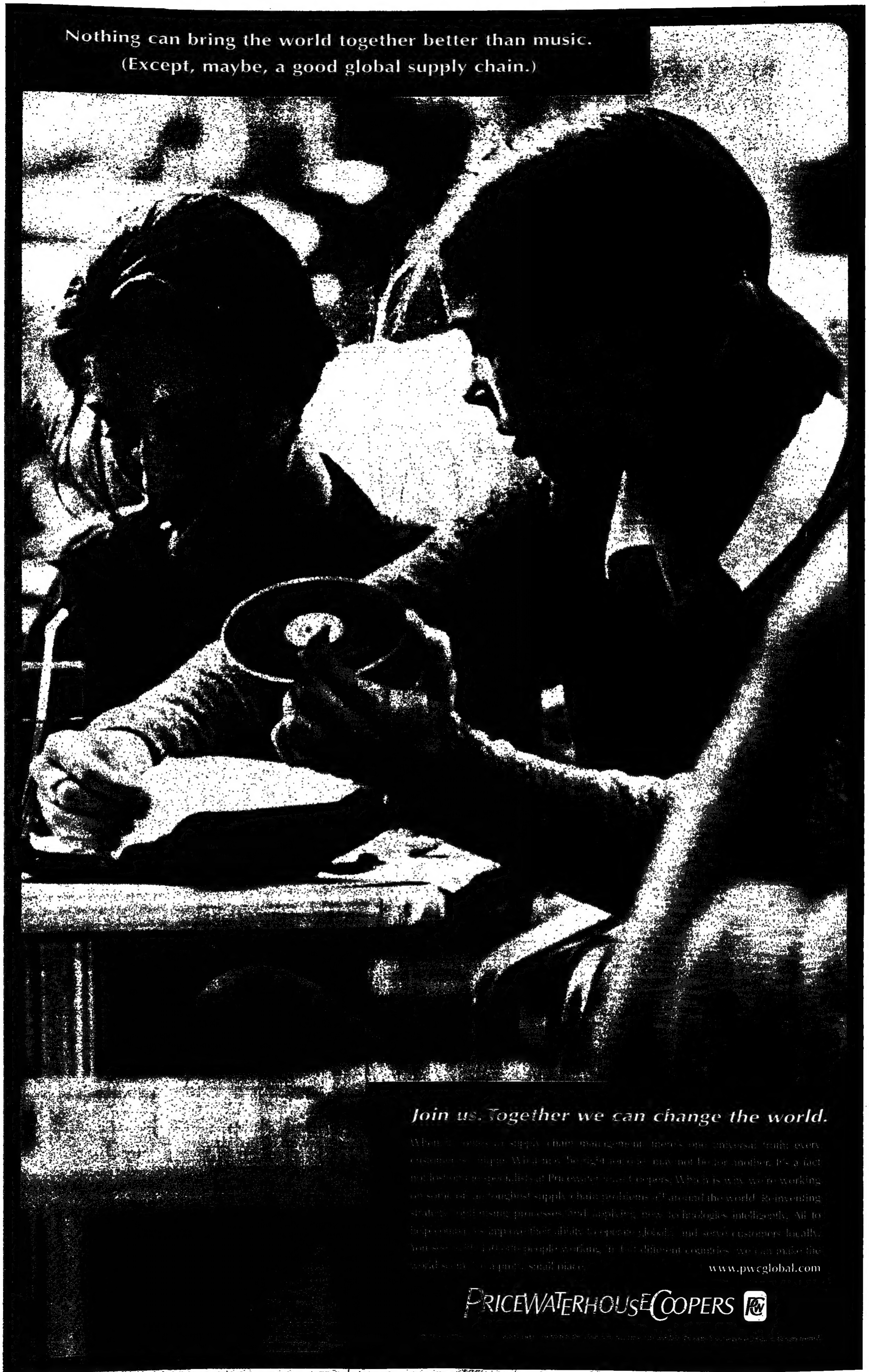
The children also work full-time. The average time spent in weekly paid work was 44 hours for boys and 34 hours for girls. Only 7 per cent of children in paid work were also attending school.

Rather than simply imposing sanctions, Dr Bhalotra said other policies may be more successful.

Domestic legislation banning child labour by developing countries may solve the problem in the long term, if families decide to have fewer children once their value as wage earners has been removed. Or a ban may increase adult wages, enabling the household to gain its minimum income without forcing its children into work.

"But in the short term, a ban would threaten the survival of the family and the child alike," Dr Bhalotra said.

A better alternative may be greater availability of credit to enable families on the poverty line to weather periods of low earnings.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WAY CLEAR FOR ENHANCED FOREIGN ROLE

Zhu line wins in telecoms struggle

By James Kynge in Beijing

China's conservative information industry minister, Wu Jichuan, has lost a power struggle against Zhu Rongji, the premier, in a development expected to accelerate the opening of a much coveted sector to foreign participation.

Chinese officials said that Mr Wu, who defied Mr Zhu's instructions for much of last year, has now radically altered his stance following pressure from other arms of Beijing's government. They said that Mr Wu's change of tune may have saved him his job, despite persistent discussion in telecoms industry circles of the pressures on him to resign.

One official who attended a key telecoms meeting in Beijing this month said that Mr Wu was espousing causes which he had vehemently and publicly opposed in the past. At the meeting, he exhorted ministry of information industry (MII) officials to provide real support to China Unicom, a second state carrier set up in competition to China Telecom, the dominant state leviathan run by the MII.

Such a pitch contrasted with remarks he made in a news conference in February that China's industry should be dominated by one carrier. China Unicom is now expected to be awarded a nationwide licence for the US-developed CDMA mobile telephone standard, something that Mr Wu had long opposed and which China Telecom does not yet enjoy, officials said.

As part of its negotiations to enter the World Trade Organisation, China has proposed allowing foreign service companies to take a direct equity stake in their Chinese counterparts. Mr Wu has long resisted such direct foreign investment in telecoms services, and last year jeopardised some $1.4bn in indirect investments by declaring them "irregular".

Industry analysts said the resignation announced yesterday of Shi Cuiming, as the chairman of China Telecom (Hong Kong), was also related to Mr Zhu's drive to create a more level playing field between Unicom and Telecom, thereby forcing the latter to become more efficient. Mr Shi is expected to move to Unicom, possibly to take up the position of chief financial officer.

Mr Shi's expected move follows that of two other senior MII officials to Unicom. Yang Xianzu, an MII vice minister, and Wang Jianzhou, a department director, have recently assumed Unicom's two top posts.

Not only does the assignment of MII's top leadership to Unicom strengthen the upstart carrier, it also weakens Mr Wu's power base, analysts said. Mr Yang especially was known to be a close associate of Mr Wu, but his departure is expected to divide his loyalties by setting him in competition with China Telecom, the main font of Mr Wu's influence.

China Telecom itself is set to become less monolithic and, over time, to sever its links with the MII as Mr Zhu seeks to separate business from government. China Telecom is expected to split into four entities this year; a fixed-line telephone company, a mobile communications company, a paging company, and a telecommunications and broadcasting satellite company.

A draft proposal being considered recommends a further division of the fixed line company into six geographical areas, officials said. It is not known, however, if the draft will be adopted. Such a division would also tend to dilute Mr Wu's influence over his former empire.

Japan comes face to face with the Year 2000 problem

The millennium is bringing a new urgency to the issue of disclosure, writes **Alexandra Nusbaum**

The Year 2000 computer problem could strike Japan nine months early – tomorrow, in fact, when most companies start their new financial year.

Many older computers could read the fiscal year's ending date as 1900 rather than 2000. Collapse could follow, warns Professor Shumpei Kumon of the International University of Japan.

The performance of Japan's computer systems on April 1 could prove critical in two respects. First, new information on Japan's Year 2000 readiness could be revealed. Second, the event could help lend weight to calls by foreign investors for better corporate disclosure about Year 2000 and general financial data.

With its built-in deadline, the Year 2000 problem has brought a new urgency to the issue of disclosure. Companies cannot hope to hide the millennium "bomb" indefinitely as they have done with previous problems such as bad bank loans and murky pension funding schemes.

Information about Japan's Year 2000 readiness has been sketchy compared to other countries, causing mounting concern among investors.

The situation came to a head last month, when the US Senate cited a report by the Gartner Group, a US technology consultancy, arguing that Japan had underestimated the problem.

Such condemnation may have prompted Japan's government to use Year 2000 as a way to prove its organisational and risk management capabilities.

"The government has realised that Y2K is a confidence and credibility issue, not a technology problem," said an official from Japan's Ministry of Foreign Affairs.

Since the Gartner Group's report was published, Japan's government has scrambled to demonstrate Japan's readiness.

Last week, the government's public relations campaign seemed to have paid off when an updated report from the Gartner Group found Japan's Year 2000 readiness had moved into line with other industrialised nations.

The upgrade came as a deep relief to many Japanese officials who were furious at being ranked with, for example, Armenia, Guatemala and North Korea in the earlier report.

But despite optimistic reports from the Japanese government and the Gartner Group, many analysts and investors remain sceptical.

Analysts said that key systems in Japanese companies relied on the western rather than the Imperial calendar and hence had no inherent Year 2000 immunity. The government's battery of statistics have failed to inspire confidence for the following reasons:

● Government data have been gathered through questionnaires, then filtered by industry agencies. "The data are released through a laundering device – the trade industries," said a western government official.

The Year 2000 'bomb' could hit Japan early – tomorrow, in fact

Without company meetings and spot checks, analysts have had little faith in the validity of the data.

● Few companies have proactively disclosed Year 2000-related efforts or spending. This approach stands in marked contrast to the US where the Securities and Exchange Commission has required companies to disclose all related information.

This includes status of preparations and contingency plans, as well as full costs and risks associated with Year 2000.

● Publication of government and corporate information in English has been sluggish. This is critical to foreign investors, says Taka Okada, who is in charge of Year 2000 at the Japan Securities Dealers Association (JSDA).

The JSDA recently "requested" members to disclose Year 2000 contingency plans in English over the internet, but he admitted: "You need to be able to read Japanese to get to the English information on our website".

The Japanese government has also been slow. According to one foreign ministry official, the government took three months to produce an English translation of Year 2000-related information on its website.

● Japan's complicated web of cross-shareholding has compounded the problem. It has become difficult to anticipate the domino effect of a glitch at any given company.

● Finally, concern has arisen that companies lack the resources to handle Year 2000 problems, with the shortage acute in small and medium enterprises.

While smaller companies worldwide have been deemed at risk, the situation has been worsened in Japan where the government has struggled to help these companies address Year 2000, in a recessionary, low interest rate environment.

April 1 is not the only pre-millennium date that could pose a Year 2000 problem. The US faces a similar situation on July 1, when 46 states start their new fiscal year. Analysts have been concerned about September 9, 1999, or "9.9.99" which computers could read as infinity or the end of time.

CREDIT AGENCY STANDARD & POOR'S GIVES NEW CREDIT RATING OF 'SELECTIVE DEFAULT'

Indonesia 'defaults on its sovereign debt'

By Edward Luce, Capital Markets Editor

Indonesia has for the first time defaulted on its sovereign debt to the private sector according to Standard & Poor's, the credit rating agency.

The agency, which awarded Indonesia a new credit rating of "SD" (selective default), the lowest rating possible for a sovereign government, said the country had in effect defaulted on a $210m loan to a syndicate of international banks led by Tokyo Mitsubishi.

The loan, which was rescheduled at the weekend, involving a grace period until March 2002 on repayments of the principal amount, is the first commercial obligation on which Indonesia has been forced to restructure.

This leaves about $450m worth of international sovereign bond obligations which retain their CCC plus credit rating.

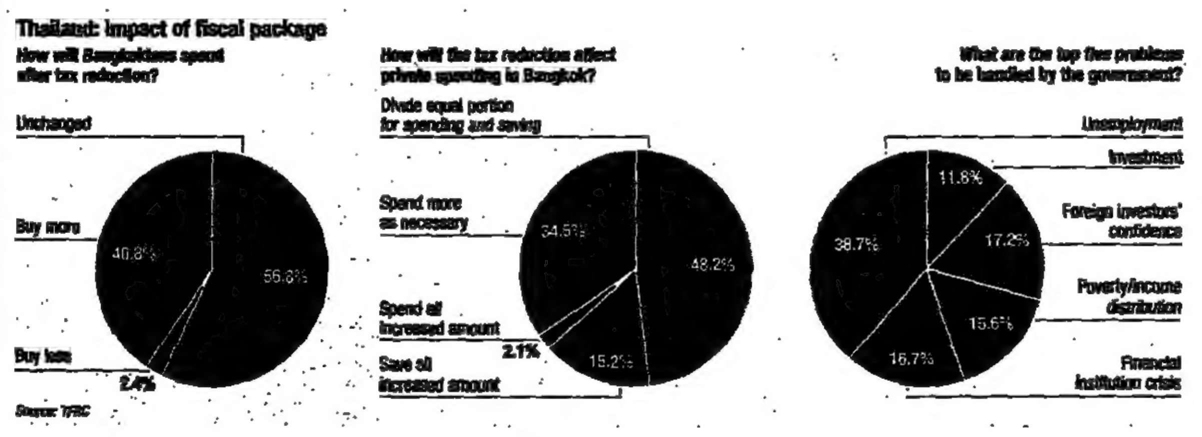
Ashok Bhatia, an economist at S&P, said that only Russia and Pakistan had so far been awarded the new rating category of "SD". Pakistan, which has been asked by the Paris Club of official creditors to restructure almost $650m worth of international bond obligations, is expected to default on its bonds.

However, the agency said that Indonesia was not expected to default on its remaining private sector obligations having successfully negotiated a grace period until March 2001 on repayment of its $1.1bn in Paris Club debt. This would free up resources to service its bond debt. The agency added that the restructuring of Indonesia's Tokyo Mitsubishi loan would also make it easier for the country to service its other obligations.

Troubles that have not gone away: A group of well-armed East Timorese guerrilla fighters from the Falentil faction guard their headquarters in the island's central mountains. The group say they are ready to resume their fight against Indonesian rule if East Timor is not allowed to become a fully independent nation Reuters

But Indonesia is not expected to gain access to the international capital markets for several months at least. The country's bonds are trading at a spread – or risk premium – or up to a 1,000 basis points over US Treasury bonds. This compares to spreads of under 400 basis points for most of its neighbours including the Philippines, Thailand and Malaysia.

The country's ratio of external debt to gross domestic product has risen from less than 25 per cent in 1997 to more than 75 per cent this year, say economists. "Indonesia can probably meet its external obligations if the rupiah remains stable at around 8,000 to the US dollar," said Mr Bhatia.



Thailand ends IMF-inspired plans and boosts spending

By Ted Bardacke in Bangkok

Looking to spend its way out of economic gloom and calm an increasingly turbulent political environment, Thailand yesterday announced a Bt130bn ($3.5bn) package of tax cuts and government spending that completes a rollback of policies introduced 18 months ago by the International Monetary Fund.

On the spending side, Bt53bn provided by Japan's Miyazawa Fund and the World Bank, will fund social programmes. Many of the projects will involve direct cash payments to rural communities for make-work programmes, by which officials hope to avoid the excessive bureaucracy that has derailed Thai government spending programmes in the past.

Tax cuts, worth Bt54.7bn each fiscal year, will focus on boosting consumer demand. The value added tax will be cut to 7 per cent from 10 per cent for the next two years, the first Bt50,000 of personal income will be made tax exempt and corporate taxes on small businesses will be waived. Taxes on energy will be reduced at a cost of Bt23.8bn. As a result, this year's fiscal deficit will be 6 per cent of GDP not including the costs to the taxpayer of government takeover of more than 60 financial institutions.

An increase in energy taxes and VAT, along with a reduction in government spending to create a fiscal surplus were among the first policies introduced following Thailand's first agreement with the IMF in August 1997. Those policies deepened the country's recession and hastened the demise of the previous government of Chavalit Yongchaiyudh.

Chuan Leekpai, Thailand's prime minister: turbulent political times

Thailand abandoned its IMF advocated high interest rate policy last year and has significantly diluted the scope of its overall programme with the Fund. In its latest agreement, the only non-technical commitments made by Thailand are related to financial system restructuring.

Politically, the spending package is very astute. The business and middle class consensus in favour of government and IMF policies is crumbling fast and the extra cash will keep politicians busy as well as give the economy a kickstart.

Finance minister Tarrin Nimmanahaeminda said the stimulus package was the only way to ensure that the country reached its 1 per cent economic growth target this year. But he said achieving sustained growth would depend on resolving the financial system's bad debt problem and engineering a recovery in exports, which are in an accelerated decline.

"These will take time," Mr Tarrin concedes.

Analysts have generally applauded yesterday's measures but warn that their "one-shot" nature will only give a window of opportunity to implement a host of crucial changes to the financial and legal systems.

The spending and tax cuts "will potentially have a high impact. The engine of growth is going to be the consumer," said Tim Condon, economist at Morgan Stanley in Hong Kong. "What the government needs to do they are doing. But they've got to complement it with getting the structural reforms in place," Mr Condon said.

Most crucial is the continuing attempt to restore health to the banking system, the moment awash with liquidity and charging unprecedentedly low interest rates, is a drag on the economy as credit extension continues to fall. This will only change, bankers say, when either the pace of corporate debt restructuring quickens or the government revises the terms of its offer last August to give banks new capital as long as old shareholders are punished.

Mr Tarrin said it was "too early" to think about changing the bank assistance plan. And of the excuse bankers use for not lending – that there are few good borrowers left in the country – Mr Tarrin said: "After this stimulus package they can't say that any more."

Yet the expansionary fiscal package is a gamble. With low interest rates, falling wholesale prices and minimal inflation, some analysts fear the onset of a Japanese-style deflation. Should this deflationary cycle gather speed, the government and economy may struggle to cope with a bloated public sector debt.

NEWS DIGEST

CHALLENGE FOR UMNO IN MALAYSIA

Anwar's wife to form opposition party

The wife of Anwar Ibrahim, Malaysia's sacked, beaten and jailed deputy prime minister, said she will form an opposition party this weekend to challenge the Umno party that has ruled since independence in 1957.

Wan Azizah Wan Ismail said the National Justice party would be multi-ethnic. There have been numerous calls for such a party since the two dominant opposition parties, PAS and DAP, are separated – as is the Malay-dominated Umno – along ethnic lines. PAS is Malay and has long supported the formation of an Islamic state. DAP is largely Chinese and is opposed to such a religious state.

Dr Wan Azizah has indicated she might even oppose Dr Mahathir in his own constituency in the general election that must be held by April 2000. Political analysts are unsure how well she would do.

Although the treatment of Mr Anwar has provoked an unprecedented backlash against Dr Mahathir, his Umno party is firmly entrenched and the opposition has so far been unable to present itself as a workable alternative to most Malaysians. **Sheila McNulty, Kuala Lumpur**

HONG KONG RULING

Mainlanders' plea rejected

A Hong Kong lower court yesterday rejected the application of 17 mainlanders who had sought to stay in the territory while seeking permanent residence status.

The court said allowing the mainlanders to stay might trigger a flood of thousands of illegal immigrants into Hong Kong. In January, Hong Kong's highest court ruled that all children in China who had one parent who is a Hong Kong permanent resident were entitled to live in the territory. The ruling added that a one-way exit visa issued by the Chinese government was irrelevant in determining an applicant's right of abode in Hong Kong.

This bold assertion of the autonomy of the Hong Kong court system sparked a constitutional row with China. The court eventually clarified its original judgment but the ruling remained intact. Lawyers for the migrants said they would appeal against the decision. Legal experts said it might be a few months before the case was referred to the Court of Final Appeal. **Rahul Jacob, Hong Kong**

SENATOR MEETS HUN SEN

Aid warning over Khmer Rouge

An influential US senator yesterday warned that US aid would be at risk if a trial of Khmer Rouge leaders did not measure up to international standards. Mitch McConnell, chairman of a subcommittee responsible for drafting foreign aid bills, made his comments after a meeting with Hun Sen, Cambodia's prime minster.

The senator told Mr Hun Sen the US believed an international tribunal was the best way to deal with the Khmer Rouge, something the Cambodian leader has rejected. "Aid is not an entitlement and it is conditioned upon certain type of behaviour," he said. Washington suspended all but humanitarian aid after Mr Hun Sen ousted his then senior co-premier in a bloody coup in July 1997.

Mr McConnell said he also told the Cambodian prime minister that he hoped more than one Khmer Rouge leader would be tried and that he understood there were six who could be tried. An adviser to Mr Hun Sen said the premier reiterated to Mr McConnell that a trial should be local under Cambodian law. **Reuters, Phnom Penh**

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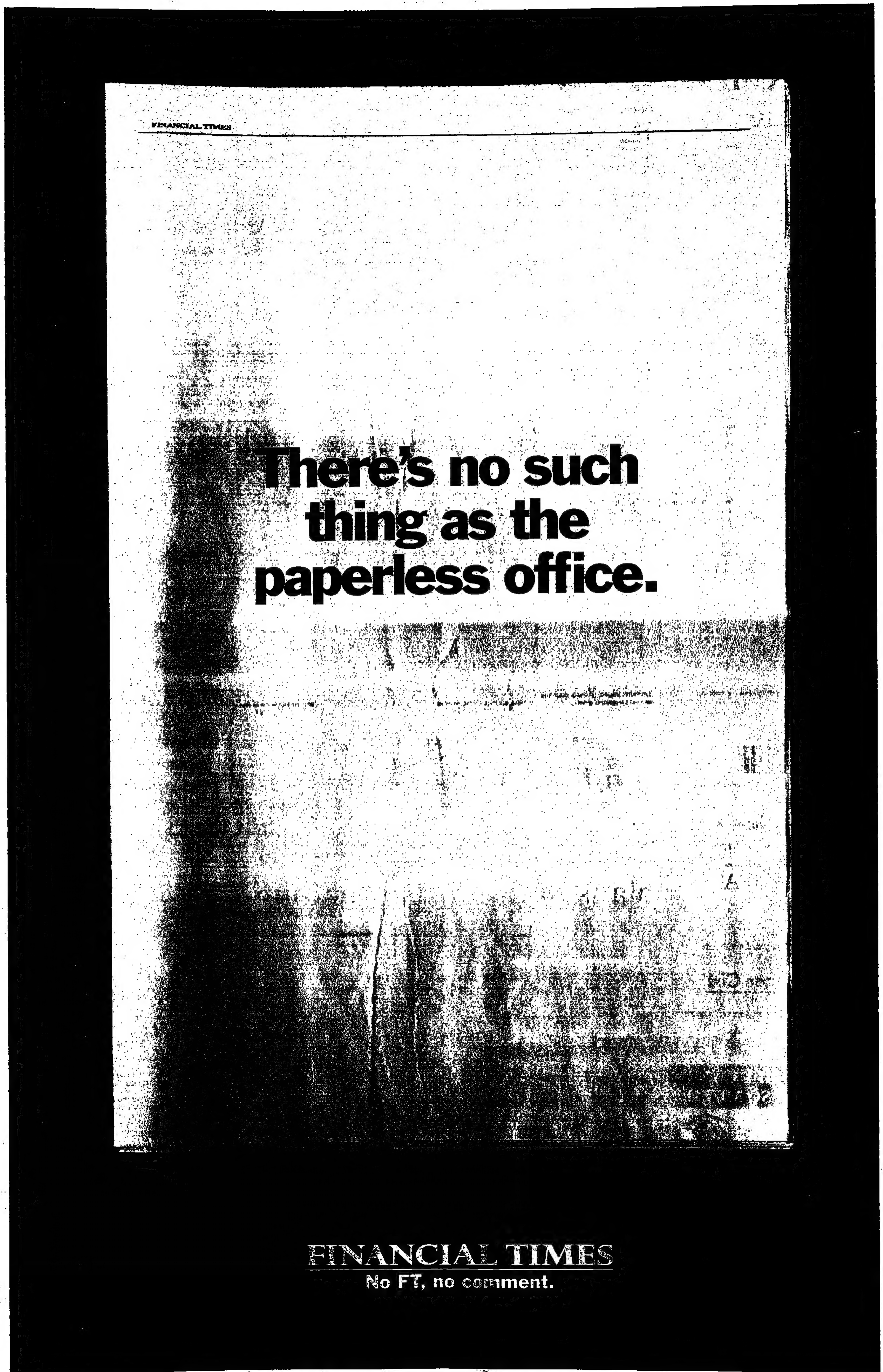

2000 problem

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Anwar's wife to form opposition party

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warning over Khmer Rouge

Mugabe outbursts fuel belief that Zimbabwe's veteran leader is losing his grip on power

Opposition to the 19-year-old Zanu regime is gathering pace, reports **Victor Mallet**

Like Mahathir Mohamad, his fellow septuagenarian leader of Malaysia, Zimbabwe's President Robert Mugabe has never been afraid to declare his suspicions about westerners, homosexuals or the independent media.

Last weekend he managed to attack all three at once. In a speech to the Youth League of his ruling Zanu-PF party, Mr Mugabe railed against local newspapers that have criticised his government, calling them "filthy tabloids" and claiming that they were staffed by young Africans used as puppets and sometimes as "homosexual partners" by manipulative western journalists.

This was only the latest of several recent outbursts by the 75-year-old Mr Mugabe against real or imagined enemies. Nineteen years after he won power following the end of white rule, he has taken to condemning Americans, South Africans, "British agents" and "unrepentant white Rhodesians" with renewed vigour to explain Zimbabwe's dire economic and political problems.

Mr Mugabe is once again threatening to seize hundreds of white-owned farms, to arrest "lying journalists" (two of whom were recently tortured over a story that embarrassed the army) and to sidestep opposition demands for a new and democratic constitution.

"People are not allowed to express themselves; strikes have been banned, and if people demonstrate they are tear-gassed; the courts are being attacked, the judges are being attacked; the trade union movement is being attacked; the media is being attacked," says Morgan Tsvangirai, secretary general of the Zimbabwe Congress of Trade Unions and one of Mr Mugabe's chief political opponents.

Far from being alarmed by the government's actions, however, Mr Tsvangirai and other critics of Zanu's authoritarian style believe they have their best chance in two decades of challenging the ruling party and introducing a real democracy.

Mr Mugabe's fulminations, they argue, smack of desperation: his army – in support of the fragile regime of President Laurent Kabila – is bogged down in a costly and apparently intractable war in the Democratic Republic of Congo; Zimbabwe itself is stricken with poverty, unemployment and disease; and restless Zanu members of parliament have begun to call for the removal of the party's old guard.

As for the proposed seizure of white farms, few Zimbabweans dispute the need to resettle land-hungry black farmers. But Mr Mugabe's opponents, as well as the foreign donors who are supposed to finance the land reform, complain that the government has no coherent land policy and has managed to transfer many of the farms already bought to senior Zanu officials.

"Race and land are the two arrows left in the Zanu-PF quiver," says Mike Auret, national director of the Catholic Commission for Justice and Peace, which has championed human rights since before independence. "They have nothing else left to offer the people. 'We are going to take the white land' – it's the only thing left."

One of the biggest threats to Mr Mugabe and Zanu is likely to come from the trade union movement

Since the mid-1990s, Zimbabwe's difficulties – and Zanu's failure to address them – have prompted what Trevor Ncube, editor-in-chief of the three-year-old Zimbabwe Independent newspaper, calls "an outbreak of political outspokenness".

Mr Ncube says the rise of new political parties and civil rights organisations – many of which have joined the National Constitutional Assembly, a pressure group, in a battle for political reform – has been made inevitable by 19 years of misrule.

"Never before in the history of this country have you had such a vibrant civil society," he says. "Churches, trade unions, the NCA, women's organisations – all running around issues of constitutionality, good governance, accountability and the observance of human rights." Paraphrasing W.B. Yeats, he says Mr Mugabe "is the centre that cannot hold any more. Things are falling apart."

One of the biggest threats to Mr Mugabe and Zanu is likely to come from the trade union movement, which has mounted a series of protest strikes over the last year and is now considering the establishment of a new political party.

Mr Tsvangirai, a burly former miner, remains coy about whether he would lead such a party, but says that the country's present leadership cannot be reformed and that it is vital to create a "democratic alternative".

In Matabeleland, disaffected members of the Ndebele minority have formed Zapu 2000, a name which harks back to the Zapu party that was absorbed by the Shona-dominated Zanu following a unity agreement in the late 1980s.

And in the capital Harare, Margaret Dongo, a Zanu defector and one of only three opposition members of the 150-seat parliament – a Zanu supporter threw a petrol bomb at her last year – has formed the Zimbabwe Union of Democrats.

"I feel betrayed because the ideals of the liberation struggle were betrayed," she says. "We have a government that is now run like a private company or a family affair." Parliament, according to Mrs Dongo, is a "toothless bulldog".

Like other opponents of Zanu, she says it is vital to clean up the electoral system and reform the constitution, which dates back to the Lancaster House peace agreement at the end of white rule but has been repeatedly amended in favour of the ruling party. "The executive powers that have been given to our president have made him a god," Mrs Dongo says.

For all the excitement among Mr Mugabe's opponents about the chances of ending Zanu's rule, they admit they are nervous about two particular dangers. First, opposition groups – instead of presenting a united front – might fight among themselves and lay themselves open to government charges that they represent ethnic rather than national interests.

The second and greater risk is that the army will eventually intervene in politics, either against Mr Mugabe because of anger over casualties in the Congo war, or in support of the status quo. Already, the government has sought to sweeten the armed forces by appointing former military officers to senior posts in the intelligence service and the departments for prisons and national parks.

"There's a militarisation of key national institutions which is very worrying," says Mr Ncube. "This is not the first time the president has shown he's got more confidence in the military than in the people."

Mugabe: his fulminations have given hope to opponents

Hopes that Moroccan PM can change anything are fading

Country needs reform but Youssoufi is seen as too cautious, writes **Roula Khalaf**

In Morocco, where hope is a rare commodity, the appointment of a man who had long fought for democracy and justice created unprecedented expectations of social reform and better economic management.

But the honeymoon of Abderrahmane Youssoufi as prime minister is over. A year after he became the first opposition leader since independence to hold the post, his ability to bring about change is being increasingly questioned.

"There is talk, talk, but we need strong signals," says Hassan Chami, vice-president of the general confederation of Moroccan enterprises. "The government acts slowly, cautiously, by consensus, but unless they bring a new spirit, what was the point of the change in government?"

A main complaint of the business community is the perceived failure of the new government to tackle administrative reform. Public salaries consume more than half Morocco's budget. With debt service taking up another 33 per cent, little is left for public infrastructure needs, which would promote private sector investment.

Mohamed El Berini, director of a new newspaper reflecting the views of one section of the Union Socialiste des Forces Populaires, Mr Youssoufi's party, says he is beginning to worry that the experiment of the secular opposition in government will fail.

He fears this could leave the field open for the Islamist movement to claim that it has the only answers to Morocco's woes. The country is saddled with high unemployment and a huge debt burden. More than 50 per cent of the population remains illiterate and even basic needs such as water and electricity are still lacking in many rural areas.

The reach of the Islamists was brought to the surface during last December's Iraq crisis. The Youssoufi government cancelled a planned demonstration by political parties against the US and British raids. Al Adl Wal Ihsan, the largest Islamist movement, went ahead and sent tens of thousands of people on to the streets.

The perception that Mr Youssoufi is not fighting hard enough to implement his promises has to do partly with the omnipresence of Driss Basri, the interior minister. Mr Basri is the man who maintains security in a country prone to protests, and controls the provinces through his appointment of governors. He is also the point man on the thorny issue of the Western Sahara, where Morocco claims sovereignty and the Algeria-backed Polisario Front wants to set up an independent state. The question closest to the heart of King Hassan, who still calls the final shots in Morocco, is at a critical stage. It is supposed to be decided by a United Nations-sponsored referendum which Morocco does not appear certain to win.

"Youssoufi has to start being the boss once and for all and he isn't today," Khalid Jamai, an official from the Istiqlal coalition partner, told a local newspaper.

Mr Youssoufi appears unable to claim credit even for small progress. After the new prime minister said he would settle all outstanding human rights cases, it was King Hassan who took up the issue, declaring that Morocco would turn the page on its past. Much to the disappointment of human rights activists, however, the body now looking into the cases of disappeared people in Morocco falls under the palace rather than being an independent commission.

Ahmed Lahlimi, Mr Youssoufi's right-hand man, says the government is conscious of the scepticism that has started to settle. But Morocco's problems have no quick fixes. The administration and the education system are rotten, but so powerful that they can only be changed by promoting forces within that demand reform.

Fathallah Oualalou, the finance minister, meanwhile points to the government's success in maintaining macro-economic balances – the budget deficit was less than 3 per cent of gross domestic product last year and should remain at the same level this year. He says the government introduced measures of fiscal amnesty that were well received by business and are bringing in additional revenue. Even with its meagre resources, the government is creating a new fund to finance rural development.

There is an overriding reason why Mr Youssoufi is moving cautiously on all fronts, however. As Mr Lahlimi puts it, the prime minister is seeking to win the confidence of the king and work with him against the forces resistant to reform. "Between the USFP and the king there are 40 years of mistrust," he says. "So first we have to build confidence and the balance of power is not in our favour."

For many observers, the objective is for Mr Youssoufi and his party to secure a key role in the succession, and play a more assertive role when the kingdom passes to Sidi Mohammed, the crown prince. The next king is said to be open to further democratisation and not to enjoy a particularly close relationship with Mr Basri.

But such a strategy carries enormous risk. As even some in Mr Youssoufi's party are warning, he may find that while focusing on winning the king's trust, he has lost that of the ordinary Moroccans who had cheered his arrival.

DRUG MONEY LAUNDERING CASE

Mexican banks set to plead guilty

By Andrea Mandel-Campbell and Henry Tricks in Mexico City and Gautam Malkani in Washington

Two of Mexico's leading banks were set to plead guilty before a US federal court judge in Los Angeles yesterday to money laundering charges stemming from the biggest investigation into the processing of drug profits in US history.

Bancomer and Banca Serfin, along with a third Mexican bank, Confia, were indicted last May in a surprise "sting" operation by US customs officials. In what was dubbed "Operation Casablanca", 112 suspects, many of them low-level banking officials, were also arrested.

Duane Lyons, assistant US attorney in Los Angeles and one of the five prosecutors on the case, speaking before the hearing yesterday, confirmed that one bank would pay the US government nearly $10m and another nearly $5m.

He said charges would be dropped against a third bank that had agreed instead to forfeit $12.1m.

Mexican banking industry analysts said the banks had already made provisions against stiff penalties, and that avoiding a long trial was vital to them to enable them to re-access US capital markets.

The two banks must still face a hearing by the US Federal Reserve Board, which reserves the right to revoke the banks' US operating licences.

Analysts however believe the banks have come to a tacit agreement to institute money laundering controls in exchange for keeping their licences.

Bank employees, who witnesses said were literally lining up outside the US attorneys office in Los Angeles to plead guilty, were still facing court charges of money laundering.

A decision by the judge preventing banks from severing their cases from those of their employees was a determining factor in their decisions not to fight the case.

Mr Lyons said: "The government is very pleased with the results. The banks have recognised and accepted responsibility for the actions of their employees."

He said the outcome showed Operation Casablanca "was a very successful operation that revealed money laundering is a significant problem and the government will use its best efforts to attack that problem because it's a significant part of our commitment to fighting narcotics trafficking."

Nine people have already pleaded guilty in Los Angeles and Mexico has pledged to prosecute five people arrested last year. Thom Mrozek of the US attorney's office in Los Angeles said he believed there were 18 fugitives connected with the case.

RACE TO BE PRESIDENT LEADING DEMOCRATIC CONTENDER HAMPERED BY 'VICE-PRESIDENTITIS'

Gore caught in Clinton's shadow

By Mark Suzman and Gautam Malkani in Washington

Fighting mood: Al Gore, vice-president, has remained steadfastly loyal to Bill Clinton AP

It is the best of times and worst of times for Al Gore, US vice-president

On the one hand, he has already seen off most challengers and built a huge lead in pursuit of his Democratic party's nomination for the 2000 presidential elections.

On the other, he finds himself repeatedly pilloried for gaffes such as his recent claim to have invented the internet and has so far been unable to generate significant enthusiasm for his candidacy, even within his core constituency. More worryingly, polls consistently show him trailing potential Republican rivals such as George W. Bush, the Texas governor.

Observers are divided over the cause of this paradox, but a key factor appears to be the unusually active nature of his vice-presidency.

Traditionally one of the more undesirable and powerless posts in US politics – a previous incumbent famously referred to it as worth less than a pitcher of warm spit – Mr Gore has transformed the office from little-used understudy to a dynamic combination of trusted adviser and important policymaker.

New initiatives are now routinely dubbed "Clinton-Gore" achievements.

That has allowed the vice-president to claim partial credit for Clinton successes such as a booming economy and a popular social policy agenda. But it has also left him closely associated with a scandal-ridden administration.

"No vice-president probably in history has had the kind of relationship with the president, been given the substance of responsibilities and had the kind of access he has," says Norman Ornstein, political analyst at the American Enterprise Institute, a conservative think-tank.

The partnership was created before the two men took office. When Mr Clinton first offered Mr Gore the job in the 1992 campaign, the then Tennessee senator insisted on a weekly lunch and independent responsibilities in core areas.

The two progressive southern Democrats soon developed a strong rapport and the lunch has since remained one of the few sacrosanct items in the president's diary. Over the years Mr Gore has scored some significant successes in his niche areas and branched out into new ones such as "livability" issues such as suburban sprawl. Even his grandiose statement about the internet was not a complete exaggeration, as he was instrumental in its development and expansion.

Just as important, he has been remarkably successful in cultivating important Democratic party officials across the country while securing many of his own friends and allies in important positions in the administration, all of whom are now well-placed to help his campaign.

But there have been downsides. Despite all his problems, Mr Clinton's personal empathy and powerful skills on the stump have tended to highlight Mr Gore's shortcomings in those areas. And although the vice-president's private life is beyond reproach, he suffers by association with the seedier side of Mr Clinton's personality. Last year, Mr Gore remained steadfastly loyal to Mr Clinton even through the darkest hours of the Monica Lewinsky crisis and received some criticism for not making a more public show of disapproval.

Nevertheless, Mr Gore's campaign is being built around the theme that his election would consolidate and expand the achievements of the Clinton administration.

But Mr Kohut also warns that despite his relatively high profile, Mr Gore still suffers from "vice-presidentitis". Notwithstanding attempts to portray himself as Mr Clinton's partner, until such time as he actually wins the nomination, nearly everything he says or does will in practice be overshadowed by the president. By contrast, even though he has a far less developed policy platform, Governor Bush is able to take personal credit for a number of successful initiatives in Texas.

Despite such problems, Mr Gore is taking comfort from the experience of his likely rival's father. In 1987, George Bush, then Ronald Reagan's relatively unloved vice-president, trailed Democratic challengers and faced much tougher primary opposition within his own party. He went on to win comfortably in the following year's election, beating a successful Democratic governor in the process.

Cigarette makers may face fire suit

By Andrew Edgecliffe-Johnson in New York

The restless legal quest for new ways to sue the tobacco industry has taken a new twist. The city of Philadelphia is examining the possibility of suing cigarette manufacturers for the cost of fighting fires caused by discarded cigarettes.

Stephen Sheller, the attorney recruited by the city's mayor to weigh up the possibility of such a suit, said: "We estimate the annual recurring cost to the city for [fighting] fires, not including injuries to firemen, is $35.6m."

Mr Sheller claims that manufacturers, rather than careless smokers, are to blame for such fires.

"They put additives in to make these cigarettes keep burning even when they are in the ashtray," he said.

Wall Street analysts are relaxed about the threat of such litigation, saying existing case law suggests that Philadelphia's chances of success are slim. They added that the sums at issue were small for an industry which last year agreed a $206bn settlement with 46 state governments.

Mr Sheller said some individuals had tried unsuccessfully to sue tobacco companies for injuries they had sustained in fires, but that no city had tried to recover the cost of extinguishing cigarette-related fires.

Philadelphia had not decided what damages to seek from the industry, he said: "First we want [manufacturers] to make cigarettes so we don't kill our firemen, then we will talk about money."

One hurdle which the city still faces is that last year's $206bn settlement includes a set-off agreement, in which any money later recovered in tobacco lawsuits must be offset against the state's share of the settlement.

Gary Black, tobacco analyst at Sanford C. Bernstein, said the notion of a fire-related claim was "stupid", while David Adelman of Morgan Stanley Dean Witter said: "Fireplaces also cause fires."

Bank lost $4.3bn defending the Real

By John Barham in São Paulo

Brazil's central bank says it lost R$7.6bn (US$4.27bn) in January and February on the São Paulo currency futures market trying to defend the Real, which the government had to float on January 13. The currency subsequently fell by 40 per cent, deepening an already severe recession in Brazil.

The futures market losses are only a part of the cost to public finances of defending the currency. The central bank also ran its reserves down by $9.1bn in January and February buying Reals on the spot market.

The government's Real-denominated debt tied to the dollar also increased by about R$43bn, because investors wanted to hedge dollar liabilities.

Including the futures losses, run-down of dollar reserves and increased debt stock and servicing costs the overall impact of the Real's collapse on public finances was about $41.7bn.

Economists say that the futures market losses, which were within the range expected by financial markets had no impact on reserve levels but increased the government's budget deficit. The central bank's futures market positions and its sales of dollar-linked securities enabled private sector companies and banks to hedge their foreign currency debts, averting possible defaults.

Private companies and banks account for 60 per cent of Brazil's foreign debt, which stood at $235.08bn in December. Most private sector debtors expected a devaluation in 1999 and had hedged their liabilities on the futures market or by buying dollar-linked government securities.

So far no big bank or company has defaulted on its debts, but two small investment banks did fail after they bet against a devaluation on the futures markets.

However, the central bank's activities in financial markets has drawn growing criticism from opposition political parties, which are demanding an investigation into claims that a group of foreign banks were tipped off about the Real's imminent devaluation.

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NORTHERN IRELAND BLAIR AND AHERN SEARCH FOR COMPROMISE TO ALLOW REGIONAL GOVERNMENT

Leaders battle to save peace deal

By John Murray Brown in Belfast

The fate of Northern Ireland's peace agreement hung in the balance last night, as the prime ministers of the UK and Republic of Ireland continued the search for a compromise to allow the regional government to be set up.

Tony Blair, the UK prime minister, is understood to have put a formula to the pro-British Ulster Unionist party and Sinn Féin, political wing of the Irish Republican Army. The formula would see a new executive body in place by the end of the week in exchange for a guarantee from the IRA that arms decommissioning would begin in the next few weeks.

But John Taylor, the Ulster Unionist party's deputy leader, last night was adamant there was "no question of the UUP agreeing to an executive involving Sinn Féin until there is some prior decommissioning." The Ulster Unionists are the largest pro-British party in Northern Ireland.

Mr Blair said earlier he would not rest until a deal was found. "Without trust between the parties this agreement isn't going to work. After talking to the parties here last night and today, I believe we can get there," he said during a visit with Bertie Ahern, his Irish counterpart, to a Belfast high school.

It emerged yesterday that the two governments are looking to General John de Chastelain, the Canadian officer entrusted with overseeing the destruction of paramilitary arms, to issue a statement verifying the republicans' *bona fides*. "The task right now is to help the general to find the formula to unblock that particular impasse," David Andrews, the Irish foreign minister, told the republic's parliament.

A UK official said: "There were a few glimmers to convince the prime minister to keep going." The government is understood to be *working on a package of* measures aimed at increasing confidence in both communities to enable the parties to find a compromise.

In its Easter statement, due later today, the IRA is expected to soften its stance on decommissioning but to *fall* short of committing itself to disarmament. The government would announce a "normalisation" programme to scale back the British security presence in Northern Ireland.

Mr Blair also met Orange Order and Portadown nationalists over the dispute about the route of the Drumcree Orange parade scheduled *for July 4*. Officials denied attempts to link the dispute to the negotiations on decommissioning.

As the talks switched to the official residence of Mo Mowlam, chief Northern Ireland minister in the UK government, officials last night appeared more upbeat about a deal. Ms Mowlam's spokesman said she was still planning to set up the executive by the end of the week.

IRA offers limited comfort over 'disappeared'

Many people from both communities see timing of statement as cruel manipulation, says John Murray Brown

Helen McKendrey, with a photograph of her mother, who had comforted a dying British soldier shot by a sniper in Northern Ireland in 1972. It was only last year that the IRA admitted it had murdered the mother of ten children Associated Press

Widespread cynicism greeted the announcement late on Monday that the Irish Republican Army had identified the burial places of nine of Northern Ireland's "disappeared". The nine had all been murdered in the 1970s and their relatives have pleaded for years for a chance to give their remains *proper burial*.

Three of those on the list were said by the IRA to have been IRA members. Two were said to have been agents for the British Army and one for the Northern Ireland police, and all three were said to have been "court martialled" before being killed. The other six were described as "civilians" who had confessed either to having been agents for the British authorities or to have been involved in stealing weapons for use in robberies.

The IRA, which said its search for the "disappeared" was now over, is certain to face hostile publicity once the bodies are exhumed and the inquests and funerals begin. But many people from both communities in Northern Ireland see the timing, coming as it does in the crucial week of negotiations, as cruel manipulation of a long-standing grievance.

Most of Northern Ireland's *disappeared were Roman* Catholics who, the IRA alleged, acted as British army informers, including Jean McConville, a housewife and mother of ten who had comforted a dying British soldier during clashes in west Belfast in 1972. It was only last year that the IRA admitted that it had killed her.

Helen McKendrey, a daughter of Mrs McConville, said yesterday: "We knew way back last year that we would be used in some way." The IRA announcement *appears to fit in with confidence* building measures choreographed by the British and Irish governments to end the impasse over the IRA's refusal to decommission its arms.

The deadlock is delaying creation of the executive of the new regional administration.

Even before Monday's statement, John O'Donoghue, the Irish Republic's justice minister, had con*firmed that the government* of the republic was considering offering limited immunity to those who help locate the bodies so that any evidence gathered would not be used in future prosecutions.

The UK government indicated that similar measures would be considered in Northern Ireland.

Monsignor Denis Faul, a Northern Ireland priest and human rights campaigner said: "They haven't apolo*gised for murdering these* people: they've apologised for a 25-year delay in giving the ordinary human decencies of a Christian burial to these aggrieved relatives." He said the IRA's statement was vague.

He added: "It looks to me as if it has been rushed out at this particular moment because it suits certain people politically to get a bit of credibility."

However, Martin *McGuinness, chief negotiator* for Sinn Féin, the political wing of the IRA, said: "The IRA wouldn't have issued this statement if they didn't intend to press on and ensure that the bodies would be recovered."

Margaret McKinney, whose son Brian was abducted in 1978, spoke of her joy at hearing the news of the IRA announcement. But Mrs McKendry said she *had received no information* on the location of the body of her mother.

Security officials believe the IRA has long known the general whereabouts of the graves, but many are believed to be in bogs where they are difficult to detect. Some may also have been on sites which have since been built on.

Republican sources said the IRA had not been able to establish the position of the remains of Captain Robert Nairac, a British army officer, abducted by an IRA *gang while working* undercover in Northern Ireland.

John Parker, his biographer, said he had been told by both republican and British intelligence sources that the soldier's body was disposed of in a pet food factory in the Irish Republic.

A year of searching for peace

- **1998 April** Good Friday agreement signed: opens way for creation of regional assembly, north-south bodies, release of paramilitary prisoners and "decommissioning" of paramilitary weapons
- **May** Sinn Féin endorses deal after vote to change its constitution and take seats in regional government; Loyalist Volunteer Force declares ceasefire; Good Friday deal endorsed in referenda north and south
- **July** Deadlock at Drumcree when Protestant Orangemen's route along Garvaghy Road is blocked by police; three young brothers burn to death when petrol bomb is hurled at their home
- **August** Car bomb planted by dissident Real IRA explodes in Omagh killing 29 people and injuring more than 300
- **September** President Bill Clinton visits Omagh; Real IRA declares ceasefire: first paramilitary prisoners released
- **October** Ulster Unionist leader David Trimble and SDLP leader John Hume win Nobel peace prize
- **December** Loyalist Volunteer Force hands over guns for destruction
- **1999 January** Upsurge in punishment beatings and shootings sparks campaign to halt prisoner releases; IRA defector Eamon Collins found murdered near his home
- **February** Assembly passes proposals for 10 ministries and six cross-border bodies, but deadlock persists over admission of Sinn Féin to executive before IRA hands over weapons
- **March** Party leaders visit Washington for St Patrick's Day; lawyer Rosemary Nelson dies after car bomb attack for which anti-nationalist Red Hand Defenders claim responsibility

Editorial Comment, Page 17

BMW urges decision on aid for Rover

FT Reporters in Munich, Budapest and London

BMW chairman Joachim Milberg yesterday voiced increasing irritation with the UK government over delays in reaching agreement on aid for its Rover offshoot's Longbridge factory in England. BMW warned that plans to make new models at Longbridge might still be switched to a rival site in Hungary.

At the same time BMW made clear that Rover's time as an independent entity is *coming to an end. The size of* Rover's board is to be reduced and its purchasing, development and distribution activities integrated with BMW's own. BMW expects to save between DM500m ($280m) and DM1bn annually through the measures.

Nevertheless Mr Milberg and Stephen Byers, chief UK industry minister, indicated that they still believed a deal *could be struck within* the next two the three weeks, while Hungarian government officials indicated that Mr Milberg's threat may be more apparent than real.

"The longer the negotiations drag on, the greater will become the likelihood of a production site outside of Great Britain," Mr Milberg said at BMW's annual press conference.

But "nothing has happened between the ministry and BMW," a spokesman for Hungary's ministry of economic affairs said last night. "Frankly, the amount of aid mentioned, at £200m, is unimaginable for Hungary. There has been no official approach to our ministry, only informal talks with minister Attila Chikan. I can imagine BMW only asked in general terms, and the minister said 'Of course we would welcome a car plant'. But there has been nothing concrete and certainly no discussions about aid or subsidies."

The UK government so far is understood to have offered BMW £118m ($192m) in aid towards a project which would see the Longbridge plant entirely rebuilt and a new family of cars to replace Rover's existing 200 and 400 cars go into production there from 2002. BMW is understood to have been expecting closer to £200m.

The UK government should treat BMW "competitively," said Mr Milberg, pointing out that roughly 20 per cent of investment costs *for Ford's Jaguar offshoot* had been met on previous projects.

Last year, a DM1.87bn loss at Rover dragged BMW's net profit down 28 per cent to DM903m from DM1.25bn in 1997. Mr Milberg refused to predict when Rover might make a profit.

BMW results, Page 21

NEWS DIGEST

NORTH SEA OIL AND GAS

Reforms aim to improve sector's competitiveness

The government will today unveil its first round of North Sea regulatory reforms as part of an initiative to enhance the competitiveness of the UK's oil and gas industry, which has been hit by low prices. John Battle, energy minister, said yesterday that the reforms will focus on the offshore licensing regime as well as on the way the government handles applications for individual projects.

A joint government-industry task force is currently examining a number of ways to cuts the costs of finding, developing and producing oil and gas on the UK continental shelf. Although costs have tumbled in recent years, the unit costs of the North Sea are still substantially higher than the US Gulf of Mexico, one of its main competitors for new investment. Mr Battle said the task force was due to meet the Chancellor of the Exchequer in the near future to discuss possible tax changes. **Robert Corzine, London**

LOBBY AGAINST EURO

'Businesses oppose entry'

Business for Sterling, an anti-euro lobby group, yesterday published a survey suggesting that most UK businesses oppose British participation in the single currency. The survey, carried out by the *respected polling organisation* ICM, will be unwelcome news to the government, which hopes that pressure from business for early entry into the single currency will help to sway sceptical voters. The survey's finding that only 41 per cent of businesses favour joining the euro contrasts with a poll by MORI for the Financial Times, published in September 1998, which suggested that two-thirds of companies wanted to join.

However, the two polls are not strictly comparable because MORI excluded companies with 10 employees or fewer. This probably accounts for the different results, since it is generally accepted that smaller firms are more euro-sceptic. However, Britain in Europe, the pro-euro business lobbying group, said the ICM sample gave too much weight to small businesses, which are also generally accepted to be the least well-informed about the single currency. **Kevin Brown, London**

LABOUR MARKET REPORT

Racism 'may be on increase'

Racism in the UK labour market shows no signs of disappearing and may be on the increase, according to new research published today. In spite of 20 years of anti-discrimination legislation, black Africans and Caribbeans, Pakistanis and Indians still experience much lower earnings and higher levels of unemployment than whites, the Royal Economic Society's annual Conference in Nottingham will be told today.

The evidence, compiled from the *government's Labour Force Survey*, shows the relative position of ethnic minorities in the workforce has deteriorated since the 1970s, when the first important laws against discrimination were passed.

The report by academics at the University of Wales and Manchester Metropolitan University concludes that "ethnic minorities do not appear to face a level playing field in the UK labour market". **Richard Adams, Nottingham**

FREE INTERNET SERVICE

Newspapers join access trend

Two of the top-selling newspapers in Britain yesterday announced the launch of free internet access services. The *Sun* and *The Mirror* are the latest big brand names to attempt to gain a share of the fast-expanding internet market and take advantage of advertising, sponsorship and on-line shopping opportunities.

The Dixons, Tesco and WH Smith retail chains have also launched similar free internet services. The Sun, owned by Rupert Murdoch's News International, was first into the fray. The Sun's telecoms partner for its new venture will be Broadsystem Ventures, a subsidiary of News International.

The Mirror's announcement came as the group created a new division to manage its new media and interactive service developments. Its managing director will be David Clarke, former chief executive of Virgin Group's Internet service provider. Cable & Wireless will provide the telecoms infrastructure.

The two new services bring to seven the number of free internet service providers to enter the UK market in the past week. **Christopher Price, London**

PROPERTY MARKET

House prices record 1.5% rise

House prices rose by 1.5 per cent in March, the biggest monthly increase for 18 months, according to Nationwide building society [mutually owned home loans andd savings institution]. Its findings add to evidence of an unexpectedly strong seasonal recovery, spurred by five base rate cuts in as many months and the lowest mortgage rates for 30 years.

David Parry, Nationwide's divisional director, said: "Although spring usually produces an upturn in the market, there are tentative signs that the recent series of base rate cuts has helped boost confidence by reducing recession fears among home-buyers."

Nationwide put the annual rate of house price growth at 7.6 per cent, up from 6.8 per cent in February, but below the 12.3 per cent level of a year ago.
Christopher Brown-Humes, London

SCOTLAND RULES AND SURCHARGE ANXIETY

Business fears assembly may blunt its edge

By James Buxton in Edinburgh

Lists of concerns that leading business people in Scotland would like to see debated in the Scottish parliament show they are anxious that the new assembly may impose extra burdens *that* would put them at a disadvantage to companies elsewhere in the UK. The first election to the parliament will be held in *May*.

Their proposed agendas, published yesterday by the Scottish Office, also show business people want the parliament to improve the country's transport system. They do not object to the idea of users of transport systems *paying tolls*, provided the proceeds are invested in infrastructure.

They also want to see improvements to the Scottish education system and would like it to promote a more entrepreneurial culture. They say they want to work with the parliament and participate in forums for sectors of industry or on parliamentary committees.

Teams from 13 sectors of Scottish business and industry were asked in January by the UK government to submit agendas for the Scottish parliament. The teams were led by senior figures such as Ian Robinson, chief executive of ScottishPower; Brian Souter, chairman of the Stagecoach train and bus company; and Sir Fraser Morrison, chairman of Morrison Construction.

A common anxiety arising in the submissions is that the parliament will disad*vantage Scottish companies* by imposing higher taxes, business rates and regulatory burdens.

The Scottish National party's policy to levy a 1p surcharge on income tax in Scotland, thus cancelling the 1p cut in income tax announced by the UK government in its recent Budget, is strongly opposed by the Confederation of British *Industry in Scotland and by* the Scottish Chambers of Commerce, which fear it will add to the cost of employing people and attracting staff.

Although the parliament will not be able to tax companies and will have no power over the regulation of *financial institutions* or competition policy, an unsympathetic administration could raise business rates.

$2bn order for trains to London

By Charles Batchelor, Transport Correspondent

Thameslink, the train operating company with the highest level of overcrowding on the UK rail network, has put forward plans to order 350 new trains at a cost of £1.4bn ($2.3bn) in return for an extension of its seven-year franchise.

Thameslink trains run from Brighton on the south *coast of England through the* City of London to Bedford, about 80km north of the capital.

This would be the second largest UK rolling stock order to be placed after Virgin Trains' £1.85bn order for high-speed trains for its lines from Scotland to London and south-west England.

Thameslink, the only company to operate a cross-London service, has serious capacity shortages because of delays in upgrading lines into central London.

Thameslink, in a survey by the rail franchising office issued on Monday, was found to be running commuter trains in central London that carried 7.1 per cent more passengers than they were designed to do.

The number of commuters travelling into central London on all lines apart from the city's Underground system rose nearly 4 per cent last year.

Thameslink 2000, a £600m scheme to increase peak capacity through a tunnel under central London from eight to 24 trains an hour, which was due for completion next year, will not be ready until 2006 because of financial restructuring, said Euan Cameron, Thameslink managing director.

Cars-by-railway service revived

By Charles Batchelor, Transport Correspondent

Motorways killed the state-owned Motorail service, which carried cars and their occupants on long-distance train journeys between London and northern Scotland and London and south-west England. Now road congestion has prompted a revival: a new London-Scotland service was launched at a London station yesterday.

Motorail opened in 1955 and reached its peak in the 1960s, carrying up to 100,000 people a year. But the opening of the first section of motorway in 1958 sowed the seeds of its demise. By 1995 when Motorail closed, it was losing £4m ($6.5m) a year.

Its revival is the idea of Graham Steele, a businessman who saw a market opportunity when he had a difficult time moving his own car back to England following a breakdown in the *Scottish Highlands. Eighteen* months ago, he set up Auto Shuttle Express, a company that moves cars by road transporter.

His rail-based service, which ran its first train yesterday, will use wagons normally used for transporting new cars from the factory to the showroom. The service is unlike the old Motorail because passengers do not *travel on the same train as* their cars. They drop them at collection points at London's Heathrow and Gatwick airports, travel to Scotland by train or air, and pick up their vehicles in Glasgow, Edinburgh or Inverness.

The reason for this extra complexity is the high speeds at which modern InterCity trains operate – up to 200kph at present with 225kph planned. This is too fast for the car-carrying freight wagons, which are *restricted to 120kph*.

However, a separate car-carrying service due to be launched this year by the privatised Great Western Trains between London and the far south-west of England will use a different design of wagon that will travel with the train carrying the motorist and is capable of travelling at up to 200kph.

Rail-borne car services are not cheap. It will still cost £360 return for a car between London and Glasgow or Edinburgh and £395 return to Inverness – on top of the cost of tickets for the driver and for any passengers.

But Mr Steele believes it will still be cheaper for the business traveller to take the train when all the costs, including working time lost by the longer road journey, are taken into account. He calculates that it would cost *an executive £1,106 to drive* to Scotland compared with £407 to to travel with the car on the train.

Britain may have suspended Motorail services in 1995 but they have remained popular elsewhere in Europe, where distances travelled are greater.

Deutsche Bahn, the German railway, said it carried about 200,000 cars and *500,000 passengers on its 125* Motorail routes last year. France still has a dense network in spite of the extent of its motorways and carried 252,000 cars in 1997.

Ironically, the reason for the French launching Motorail in 1957 was demand from British motorists wanting to avoid the drive to holiday destinations in the south of France.

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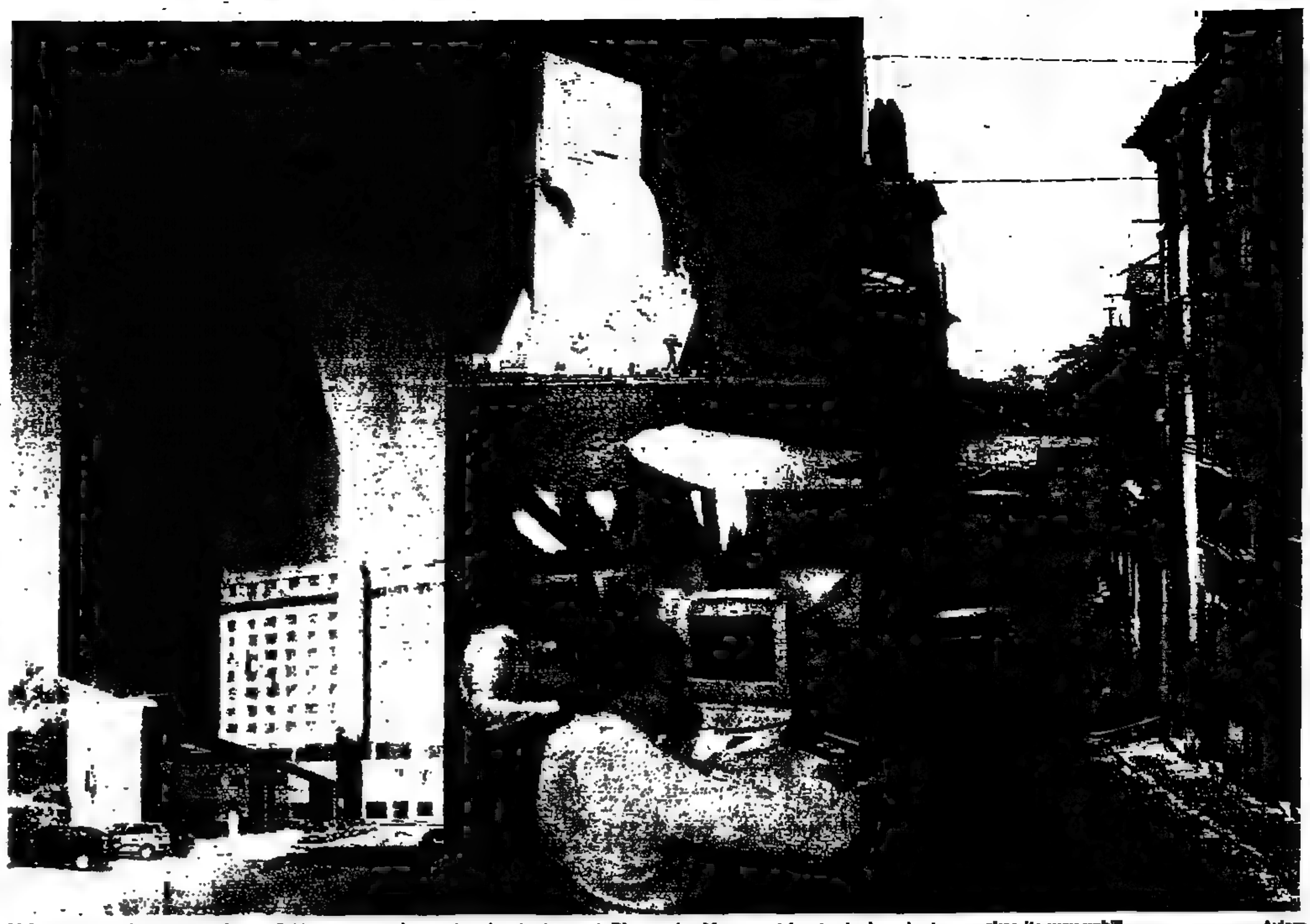
PORTUGUESE BANKING AND FINANCE

WEDNESDAY MARCH 31 1999

Travelling on the euro train to prosperity

Membership of the EU and, in particular, participation in Emu are the catalysts that have done most to stimulate Portugal's economy, writes Peter Wise



Lisbon scenes: the stock exchange (left), money market traders (centre bottom), Discoveries Monument (centre top), and a tram makes its way uphill Axiom

Electronic doors open automatically for visitors to Sociedade Interbancária de Servicos (Sibs), the company that runs Portugal's automatic teller machine network, acknowledged as the most advanced in the world. On display inside, prototype ATMs, equipped with full computer keyboards in steel and large colour print-outs, provide services ranging from driving licence applications to internet browsing.

Only a few hundred yards from the group's headquarters, housed in the same gleaming black tower block as the Lisbon stock exchange, a startlingly different aspect of Portugal emerges. In a rundown shanty town, dozens of families, among the poorest in Europe, subsist in shacks roughly nailed together from old planks and rusty sheets of corrugated iron.

The deep gulf between these neighbouring Lisbon districts is a symptom of the rapid transition Portugal is undergoing as strong economic growth brings the country closer to average European living standards. Since 1985, average gross domestic product per capita has grown from just over half to about 70 per cent (about Es2m or €10,000) of the European Union average.

Some sectors of the economy are surging rapidly forward, often benefiting – like the ATM network – from a late-starter's advantage in leapfrogging stages of development. Their progress, however, exposes an increasingly stark contrast with more backward areas, including pockets of extreme poverty, an inefficient health system and low educational standards, where Portugal still lags behind most of its European peers.

Vitor Bento, head of the Public Debt Management Institute (IGCP), says these contrasts, which also exist in more developed countries, are a sign of positive change in Portugal, because every section of society cannot advance at the same pace. "Portugal's progress is like a train," he says. "The rear carriages only start moving after the locomotive has set off. But eventually the whole train arrives at the same destination."

Membership of the EU and, in particular, participation in economic and monetary union are the catalysts that have done most to stimulate Portugal's transformation. "Adopting the euro was like putting a lock on the door," says Rui Martins dos Santos, chief economist with Banco Português de Investimento. "There was a cost involved, but the benefits include smaller insurance premiums – that is, lower interest rates – and, above all, security."

'Strong economic growth is bringing the country closer to average European living standards'

He says the most important security provided by the euro is "protection from speculative raids against our currency. Disciplining the economy to qualify for the euro has already required a long period of exchange-rate stability, involving a substantial overall appreciation of the escudo in real terms and the abolition of the "crawling-peg" and one-off devaluations that had helped to keep industry competitive in the past.

Despite the stronger escudo, exports to the EU, which accounts for more than 80 per cent of Portugal's foreign trade, have been growing faster than the average rate of European economic growth, reflecting a gain in market share for Portuguese products. Manufacturers have been able to compensate for the loss of an exchange-rate advantage by improving productivity, says Mr Bento. Only in this way can Portugal catch up with the rest of the EU.

Portugal, once considered an outside candidate for joining the euro-zone, surprised many by complying so comfortably with the Emu criteria. More genuinely surprising, perhaps, was how painless the process proved. "Portugal was the only country able to reduce its budget deficit to below 3 per cent of gross domestic product (the Maastricht criteria) without reducing current government spending. This was achieved while actually increasing expenditure as a percentage of GDP," says Miguel Beleza, a senior economist with Banco Comercial Português.

This was partly because of the sharp fall in interest rates that occurred as Portugal prepared for Emu. It led to big reductions in the cost of servicing the public debt. Lower interest rates are also contributing to strong economic growth, which peaked at about 4 per cent last year. This has helped produce a substantial increase in tax revenue. An extensive privatisation programme has also eased government spending by providing funds for improving the balance sheets of state companies that have not yet been sold.

The EU Commission feels Portugal should now be more aggressive in reducing the public deficit, which the government aims to cut from a projected 2 per cent of GDP this year to 0.8 per cent in 2002. But António Guterres, the first prime minister to take office from the new generation of modernising socialists that now dominate EU governments, argues that public spending needs to be relatively expensive if Portugal is to continue catching up with the rest of Europe.

European funds are also playing an important role in the country's modernisation, amounting on average to the equivalent of 3.5 per cent of GDP a year. The negotiations that ended last week with an agreement on Agenda 2000, the EU's plan for reforming spending, were the toughest Portugal had ever faced, said Mr Guterres.

He had been prepared to block an agreement unless a formula was found to spare the country sharp cuts in regional aid. Fearing Portugal would be the country hardest hit by EU funding proposals for the period 2000 to 2006, he pressed hard for concessions to soften the impact of proposed reductions.

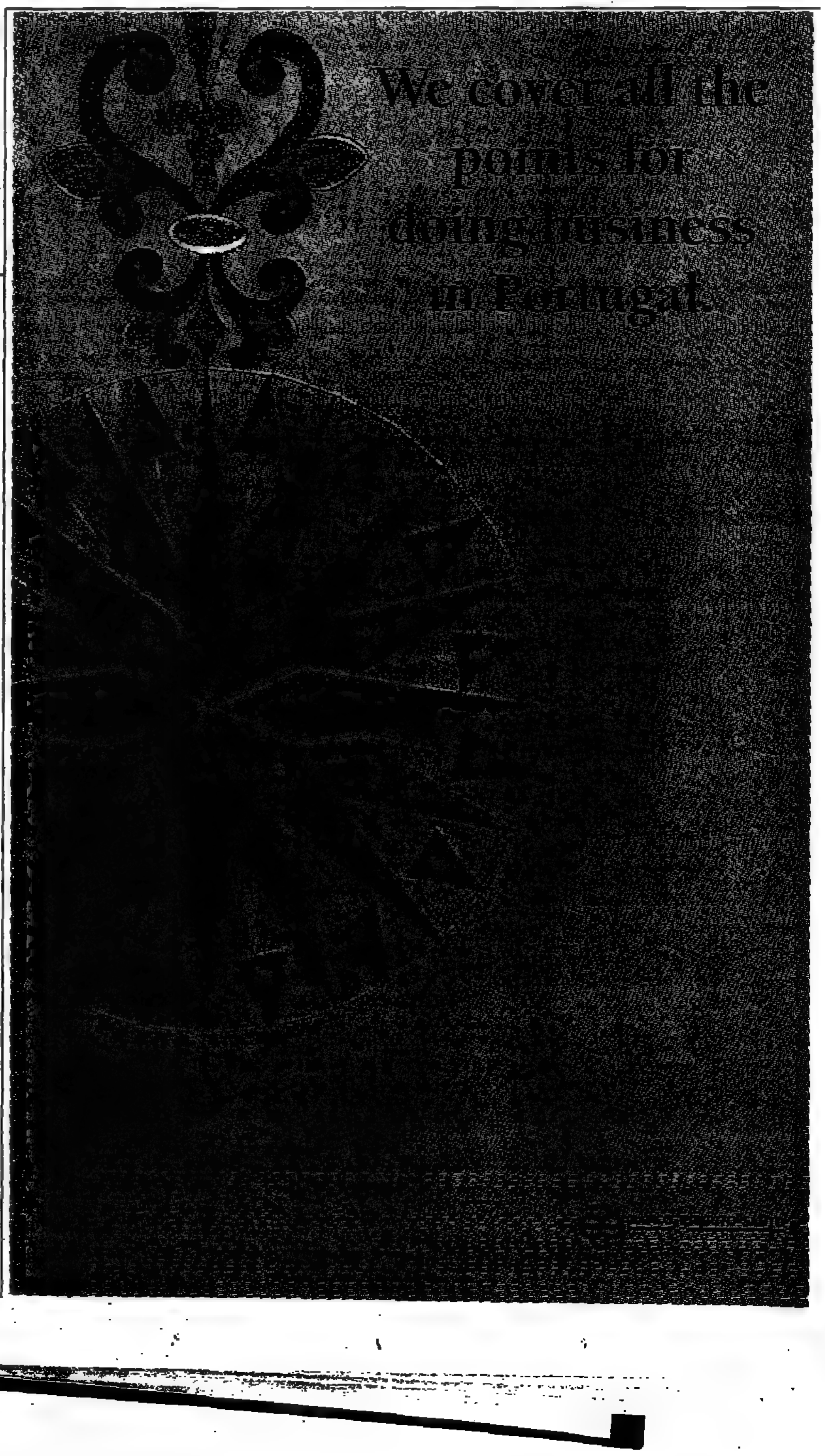
After scoring what officials described as "a last-minute penalty" in the talks, Mr Guterres said Portugal had achieved all its objectives by securing 10.8 per cent of total EU structural funds, up from 10.6 per cent in the previous six-year period. Portugal would receive an average of Es650bn a year (€3.2bn), up from Es637bn previously, he said.

"European structural funds have been crucial in helping Portugal move closer to average EU levels of productivity and income. But we are still one of the poorest EU countries, facing a significant gap in relation to the European average," said Francisco Seixas da Costa, European affairs secretary in the Socialist government.

The government had been prepared to fight because the Agenda 2000 proposals focused more on cutting structural funds, the main source of support for Portugal, than they did on reducing farm aid, from which Portugal derives almost no benefit.

According to the Centre for European Policy Studies, although Portuguese farmers are the poorest in the EU, they benefit the least from the Common Agricultural Policy. This is because CAP funds are channelled mainly to meat, dairy and cereal production, which are not prominent in Portugal. Other EU farmers are on average six times better off than their Portuguese counterparts, the Centre says.

"The modernisation of Portugal is to the advantage of the whole of Europe," says Mr Bento. "Germany, for example, is our biggest supplier. German and other European companies benefit directly as Portugal becomes more prosperous and spends more. European structural funds should be seen as an investment not a hand-out."



THE ECONOMY by Peter Wise

Brussels warns about danger zone

Although the economy is in good shape, the European Commission is disappointed that the budget deficit will not be cut more rapidly

António Sousa Franco, the finance minister who has presided over Portugal's successful bid to participate in European monetary union, believes that the economy has performed better over the past three years than ever before. But he is not short of reminders that a season of plenty is also a time to set store for the future.

In January, the European Commission expressed disappointment that Portugal was not showing greater ambition in cutting its budget deficit. "In view of the current high level of economic activity, a more rapid decline in the deficit ratio could be accomplished," it said.

While congratulating the government on planned reforms to the national health service, the public administration and the social security system, the Commission warned that these all remained risk areas that could lift public spending into the danger zone.

When high economic growth begins to falter, Brussels warned, the deficit could rise above the limit – 3 per cent of gross domestic product – that countries in the euro-zone are committed to maintain under the Emu stability pact.

Inflation is also a concern. Portugal and Ireland are the only euro countries where inflation is above the 2 per cent "price stability" target set by the European Central Bank. Portugal's February inflation figures were disappointing, with the monthly rate remaining unchanged and the annual average rising to 2.9 per cent.

Mr Sousa Franco can take comfort from the knowledge that these problems are side-effects of the positive transformation that the Portuguese economy has undergone as a result of the country's consuming ambition to adopt the euro.

Inflation is running higher than in other euro-zone countries because economic growth is also much stronger. After peaking at about 4 per cent last year, GDP growth is expected to decelerate to below 3.5 per cent this year and to 3 per cent, the estimated level of the long-term trend, in 2000. In effect, Portugal is growing more than one percentage point faster than the European Union average.

Growth is being driven by domestic demand. Private and public consumption rose 4.5 and 3.5 per cent respectively last year, accounting for 75 per cent of GDP growth, and replacing investment, which grew 9.4 per cent, as the main engine of growth.

The same is true of the budget deficit, which the government aims to cut from a projected 2 per cent of GDP this year to 0.8 per cent in 2002. Catching up involves a large public investment programme, which places restraints on reducing the deficit, says Mr de Sousa. But he also urges an effort to lower the deficit as much as is prudently possible to provide a safety net for the future.

"Structural questions, such as social security and health spending, should be addressed as soon as possible," he says. But he sees no cause for alarm. "Portugal has a very good record of trying to solve problems some years in advance rather than at the last minute.

Portugal's stability programme

Government commitments

	1999	2000	2001	2002
Real GDP growth (% change)	3.5	3.2	3.2	3.3
Budget deficit as % of GDP	2.0	1.5	1.2	0.8
Public debt as % of GDP	56.8	55.8	54.7	53.2
Inflation (% change in CPI)	2.0	2.0	2.0	2.0

Source: Finance Ministry

Consumption has been stimulated by a sharp fall in interest rates, which have been cut by more than half over the past three years as Portugal prepared for the euro. Never before have the Portuguese benefited from such low rates on a sustained basis.

In this climate, economists consider it inevitable that inflation will run slightly higher than in the rest of the euro-zone. "Because Portugal is engaged in a process of catching up with the rest of Europe, inflation will probably always be a little higher over the next few years," says António de Sousa, the governor of the Bank of Portugal. The government target is 2 per cent over the next four years, down from 2.8 per cent in 1998.

ute. That is why we were able to make such a smooth transition to monetary union."

The danger of Portuguese inflation running out of step with the rest of Europe is in the potential impact on wages and the damage higher labour costs could inflict on competitiveness.

In January, the government agreed to a 3 per cent wage increase for public administration workers, partly to compensate for inflation in 1998, which was substantially higher than the official target. Taking into account tax and other benefits, economists estimate the public sector wage bill, the biggest item of government spending and a benchmark for the private sector, will increase more

António Sousa Franco: presided over participation in Emu

than 7 per cent this year.

Before Portugal set its sights on the euro, the impact of rising labour costs on exports used to be offset by devaluing the escudo. Like most Portuguese economists, Miguel Beleza, a senior economist with Banco Comercial Português, is happy this is no longer an option. "The drawbacks of the euro are vastly smaller than the advantages," he says. "Portugal would be in much worse shape if we were outside the common currency."

Inside the euro-zone, the only means to prevent labour costs reducing competitiveness is through fiscal measures, says Mr Beleza, a former finance minister and former governor of the Bank of Portugal. "If this does not happen, we will have a more painful correction through slower growth and lower employment."

In disciplining the economy for the euro, Portugal has already learned to live with a stable exchange rate for more than three years and most exporters have succeeded in compensating for the loss of a weak currency advantage by improving productivity, quality and design.

Only by bettering productivity in this way can Portugal catch up with the average living standards of the EU, says Vitor Bento, head of the government department that manages Portugal's public debt.

Since 1985, average per capita income in Portugal has grown from just over half to about 70 per cent of the European average. The Portuguese, now sharing a common European currency, appear determined to close the gap.

BANKING by Peter Wise

Gentle consolidation

The question of foreign ownership of banks is a sensitive issue for the authorities

A series of take-overs in 1995 and 1996 brought about 80 per cent of Portugal's banking assets under the control of five groups. But as a wave of huge mergers in Europe reshapes banking on an international scale, even Portugal's biggest banks are beginning to look small by comparison.

The advent of the single European currency that is accelerating mergers and acquisitions in banking and other sectors across Europe will inevitably lead to further consolidation of financial groups in Portugal, says Elizabeth Rothfield, a managing partner and research co-ordinator with Midas Investimentos, a Lisbon-based investment house.

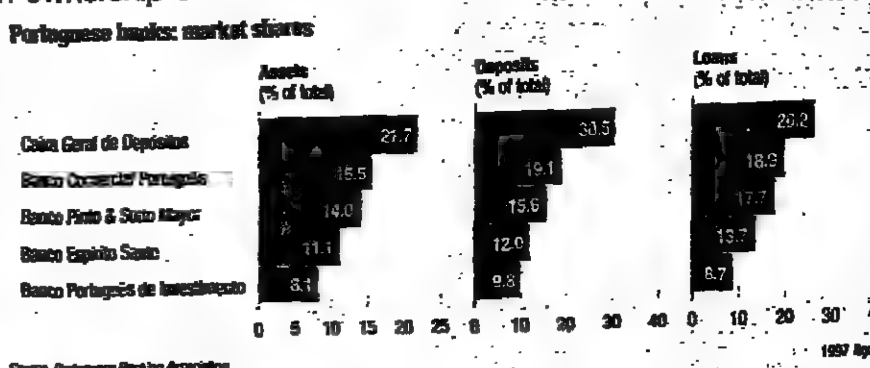
"Although Portugal has already taken important steps towards bank concentration, the market remains relatively fragmented in the context of the euro-zone," she says. "Consolidation is likely to be domestic at first. But the next logical step would be the creation Iberian banking groups."

The question of foreign ownership is a sensitive issue for the Portuguese authorities and government officials have made it clear that they would prefer that the "decision-making centres" of big Portuguese groups should not move abroad.

As a participant in the single European market, the government could not ultimately prevent such a development. But it has moved a new counter on to the board that is expected at least to inhibit a hostile foreign take-over bid for a big Portuguese bank. State-owned Caixa Geral de Depósitos, Portugal's biggest bank with an overall market share of about 25 per cent, will not be "a mere spectator" in the expected consolidation of the financial sector, says Fernando Teixeira dos Santos, the treasury secretary.

The implication, say economists, is that CGD could help defend a Portuguese bank against a hostile take-over bid by becoming an important shareholder. "This is at best a deterrent that could persuade a foreign group not to act against the express wishes of the government," said a Lisbon banker. "But however much capital a Portuguese group could muster, it would not be enough to fight off a big European bank."

Portuguese banks: market shares



Source: Portuguese Banking Association

António Champalimaud (left): could determine future of banking. Diego Hernando (right): banks are the biggest users of IT

A defence against foreign control is part of the government's rationale for keeping CGD out of the privatisation process that has returned the rest of the financial sector, nationalised after the 1974 revolution, to the private ownership. "It would be very unwise for a country such as Portugal to allow the possibility of 100 per cent of its financial sector to be subject to mergers or acquisitions determined by the private sector," says António Sousa Franco, the finance minister.

Consolidation within Portugal is expected before any cross-border bid and the first move is thought to be imminent. "If it doesn't happen very soon, concentration will be delayed until next year," says Diego Hernando, a managing partner and head of research with Midas Investimentos. This is because of the possible effects of the so-called millennium "bomb" on bank information systems.

"Banks are the biggest users of information technology in Portugal," says Mr Hernando. "Any acquisition would have to be made in time for thorough testing of year 2000 compliance. If no agreement is reached in time, the consolidation process is likely to be postponed until next year."

Banco Comercial Português, Portugal's biggest banking group after CGD and considered the most likely initiator of consolidation, needs to increase in size to take full advantage of its investment in information technology, says Miguel Beleza, a senior economist with the group.

Analysts says BCP has built up capital reserves that would allow it to make a cash acquisition of up to Es170bn without falling below the minimum required capital adequacy ratios. But it is 80-year-old António Champalimaud, a veteran entrepreneur and Portugal's richest individual, who could determine the future shape of Portuguese banking.

His financial group, headed by the insurance company Mundial Confiança, accounts for about 20 per cent of total bank deposits and is seen as the most likely acquisition target. Mr Champalimaud is understood to have been approached by BCP, Banco Português de Investimento and Banco Espírito Santo, two other leading financial groups, with separate merger proposals.

His group, which includes Banco Pinto & Sotto Mayor and Banco Totta & Açores, two big commercial banks, is considered to have the weakest management and the least coherent structure in the financial sector, making it the group most vulnerable to take-over.

Any consolidation in the relatively small world of Portuguese banking is expected to be "gentle and civilised," in the words of one analyst. But so far Mr Champalimaud appears not to have reached a satisfactory agreement with any of suitors. Analysts expect he would agree to a merger in return for a substantial but minority shareholding in the new group.

A new Spanish dimension has been added to the many possible concentration scenarios in Portugal by the proposed merger between Banco Central Hispano and Banco Santander, two of Spain's leading banks. BCH owns about 13.8 per cent of Portugal's BCP and BCP holds about 9 per cent of BCH.

BCP has expressed its support for the merger. But the move has a created a situation in which BCP is competing in its home market with a Spanish bank – Santander has a relatively small Portuguese operation – that is about to merge with its main partner.

No one is risking a forecast of what alliences will emerge from all the possible permutations for consolidation. "We may see outright mergers or some form of 'networking' involving cross shareholdings," says António de Sousa, the governor of the Bank of Portugal.

STOCK EXCHANGE by Christopher Brown-Humes

Uncertain times for bourse

The exchange's future is being questioned as it faces up to the question of whether it goes it alone or joins an alliance

These are uncertain times for the Lisbon stock exchange. A new chairman has just taken over, a new trading system is being bedded down, and there is persistent talk of a restructuring or privatisation to make it more commercial.

There are also questions over the exchange's future at a time when other European bourses are forming alliances, most notably London and Frankfurt. Like other smaller European bourses, Lisbon will have to face the question of whether it goes it alone or joins an alliance to prevent trading migrating elsewhere.

The bourse is currently a not-for-profit entity, but the widespread expectation is that its legal constitution will change. "The bourses should be profit-making entities, that is commercial operations or limited companies," Jose Nunes Pereira, chairman of the financial markets committee, said recently.

The expectation in the broking community is that change will come sooner rather than later, and possibly in the next three to six months. But no-one is quite sure what form the restructuring will take, and whether it will amount to a full-scale privatisation and the issue of shares. Analysts believe Alvaro Dâmaso, the new stock exchange chairman, who took over on March 17, favours a "more flexible" structure for the exchange than the one being worked on by the government.

"We think most of the accumulated profits in the stock exchange will revert to the state. But a small amount will go to each of the members who have paid an initial fee to have a seat on the exchange," says Elizabeth Rothfield, a managing partner of Midas Investments, a leading Lisbon investment house.

Once the privatisation question is resolved, the bourse will have to consider its European role, given the consolidation unleashed by the euro and expectations that trading in large stocks will gradually migrate to big exchanges. Small bourses on Europe's other fringes are already facing up to these issues, as shown by Swedish and Danish moves to establish a pan-Nordic trading system.

"It's clear that over the next five to 10 years, Portugal on its own doesn't really make much sense, particularly if larger markets are getting together," says Ms Rothfield.

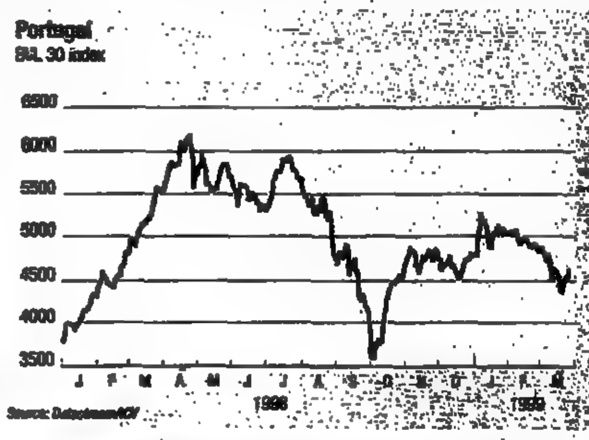
A sign that bigger could mean better came earlier this month when the Oporto Futures and Options market, known as BDP, signed a memorandum of understanding with representatives of the French, Spanish and Italian derivatives markets. It outlines the terms of BDP's membership of Euroglobex, an alliance between these four markets, which envisages cross-listings of future and option contracts.

Meanwhile, the Lisbon equity market has cooled somewhat from the feverish levels that took it to a record high in April 1998. At that point share prices had tripled in value in two years, and there was a 50 per cent rise in the first four months of last year before the BVL 30, Portugal's main index, reached its peak of 6,176 on April 22, 1998. The unprecedented rise was driven primarily by falling interest rates, but understandably it gave rise to concerns about "froth" and "sustainability".

"People in the streets were discussing the stock market. When you hear them saying this stock is cheap because it's only 5 euros, while this one is 10 euros, it means they don't know what they are talking about," said António de Sousa, governor of the Bank of Portugal.

Portugal

BVL 30 index



Source: Datastream/ICV

Elizabeth Rothfield: popular capitalism has come to Portugal

Towards the end of March this year, the BVL 30 was back down at around 4,550, some 26 per cent below its peak. Unlike some other European bourses, the market has never fully recovered from a big fall last autumn caused by economic instability in Asia and Russia. It has subsequently been hit by concerns about the Brazilian economy because many Portuguese companies are significant investors in Brazil.

The number of private Portuguese investors holding shares has risen dramatically as a result of the privatisations of the past few years. For example, 700,000 people held shares in Electricidade de Portugal, the national power utility, at privatisation – some seven out of every 100 of the population. "Popular capitalism has come to Portugal," says Ms Rothfield.

One sign of the new enthusiasm can be seen at the exchange itself, where private investors huddle round flickering screens in the stock exchange foyer, watching how their investments are performing and occasionally instructing brokers on mobile phones.

Around 50 per cent of the market is held by foreign investors. This reflects the fact that over the past two years the country has joined the mainstream, after being officially upgraded from an emerging market to a developed market more than a year ago. It now carries a 1.8 per cent weighting in the Morgan Stanley Capital International's Europe index.

The change means that the pool of capital that can be attracted to Portugal is much bigger. But analysts suggest it is creating a two-tier market, and causing liquidity problems. International investors tend to concentrate on a small number of large stocks and sectors – particularly telecoms, banks, and utilities – and they show little interest in smaller companies.

Analysts say the Portuguese market is reasonably valued – and there is scope for it to move higher in the absence of international turbulence. This is because there is widespread expectation of consolidation, particularly in sectors such as banking, construction and pulp and paper. There is also scope for further corporate sector efficiency gains.

GLOBALISATION by Peter Wise

Venturing abroad in the spirit of the early navigators

Portugal last year ranked among the 15 nations that invested most overseas, a considerable feat for one of western Europe's poorest countries with a population of only 10m

The Portuguese could convincingly lay claim to having invented the concept of globalisation. Vasco da Gama, Fernão de Magalhães (Magellan) and the country's other great 15th and 16th century discoverers laid the foundations for a trade-based empire that endured for 500 years.

Displaying the same venturesome spirit that motivated navigators such as Pedro Ivares Cabral, who "discovered" Brazil in 1500, Portugal last year ranked among the 15 nations that invested most overseas, a considerable feat for one of western Europe's poorest countries.

Brazil, five centuries after the Portuguese first landed there, is again the main focus of the country's overseas business. Portuguese companies last year committed themselves to Brazilian investments totalling more than $4bn and are expected to invest at least another $1bn there this year.

"Portuguese businesses are keenly aware that to compete in a global economy you need to build global companies," says Guilherme Costa, head of ICEP, the Portuguese Institute of Investment, Trade and Tourism. "Their strong expansion overseas is an indication of the high levels of competitiveness, management expertise and productivity they have achieved."

Portugal's biggest investors in Brazil include Portugal Telecom, which last year acquired a controlling stake in Telesp Celular, a mobile telephone operator, and Electricidade de Portugal, the national power utility, which has made Brazilian investments totalling Rs135bn.

The Sonae group, a conglomerate led by Portugal's biggest retail distribution group, is one of the top supermarket chains in Brazil, a market 16 times bigger than Portugal. Portuguese cement, banking and other groups have also made significant Brazilian acquisitions.

Brazil, besides being a huge market with huge potential growth, shares a language and other cultural affinities with Portugal that make it a natural target for investment. Brazil's financial crisis has not deferred Portuguese groups, which are investing in the long-term potential of Brazil, says Mr Costa. In fact, the devaluation of the real has provided big savings for companies, such as Portugal Telecom, which have opted for early repayment of money borrowed in Brazil.

Brazil is not the only country where Portuguese businesses are investing. Spain, a natural market for Portuguese goods, is mainly a focus for commercial and marketing investments. But the Sonae group's acquisition of Tafisa, a Spanish timber products company, marked the beginning of a process that has elevated Sonae Indústria from a relatively small company on an international scale to the world's leading producer of wood conglomerates. Corticeira Amorim's overseas investments have established the northern Portuguese group as the world's biggest cork producer.

Eastern Europe is another area to benefit from Portuguese investment. Over the past four years, Jerónimo Martins, Portugal's second largest supermarket group, has invested more than $200m in setting up the largest food retail chain in Poland, operating more than 400 stores with estimated annual sales last year of $800m.

"Eastern European markets are less competitive in many sectors than any of the European Union markets," says Pedro Soares dos Santos, head of the group's eastern European operations. "That makes them a natural target for Portuguese companies finding there is no room left for expansion at home. By moving into eastern Europe we stand to benefit all over again from the flow of EU funds that has stimulated such strong economic growth in Portugal."

Other Portuguese companies have followed with investments in Poland, Hungary, Russia and neighbouring countries. Macao, Portugal's last remaining colonial possession, which returns to China in December, is being used as a springboard for investments in Asia. Portugal was also the biggest foreign investor in Tunisia last year.

Portuguese companies are investing abroad as their home market becomes saturated and the opportunities for growth in Portugal diminish. Portugal Telecom envisages that 25 to 30 per cent of the group's earnings will originate abroad by 2002. The share will be much bigger for retail groups such as Sonae.

Economic growth in Portugal and, in particular, a sharp fall in interest rates, have provided business groups with the financial capacity to invest abroad. Industrial companies also benefit from savings as Portuguese labour costs increase. This has led to debate over the potential impact on jobs in Portugal.

ATM SYSTEM by Christopher Brown-Humes

Machines give super service

ATMs have usurped some of the post office's functions and diminished the need for direct debits by standing order

Ask a Portuguese businessman to name a sector in which Portugal leads the world, and the somewhat surprising reply could be "our ATM network".

The country boasts an extraordinary number of automated teller machines for a population of just 10m people, with a network reaching deep into remote rural areas.

The machines are heavily used and they provide a much wider range of services than just cash withdrawals or balance updates. Need rail tickets? Go to your local cash machine. Want to pay your electricity bill?. Ditto. Got a tax bill to settle? Same again.

The result is that the ATM system has usurped some of the functions of the post office and diminished the need for direct debit transactions by standing order. It has also meant explosive growth in the number of debit cards in issue.

How has the country achieved this position? The answer is the way the ATM network, called Multibanco, was set up back in the 1980s as a unified, inter-bank system, rather than a proprietary arrangement with each bank seeing competitive advantage in doing its own thing. That has meant the customers of one bank have always been able to use another bank's machines without penalty.

The operator of the system is called Sociedade Interbancária de Servicos, or SIBS. It has 30 shareholders representing Portugal's retail banking operations.

Felipe Santos, SIBS director-general, says the system has thrived because "the ATM is not just a cash machine but a service point". A second strength is good risk control and fewer fraud and counterfeiting losses than in other countries. "Bank managers seem to be confident about issuing cards," he says. Spain may have more ATMs per capita, but their usage is less than half the Portuguese average, he adds.

Use of ATMs is actively encouraged by the banks because transactions cost less than half the expenditure on processing cheques. Banks tend to charge a fixed annual fee for usage, rather than charging every time a machine is used.

Felipe Santos: new machines will allow users to tap into the internet

'Electricity, phone, water, insurance, local rates, even fines can be paid by using the ATMs'

Mr Santos says the bill payment system is particularly widely used. You can pay for your electricity, phone, water, insurance, and local rates, for example. You can even pay fines or make donations to your favourite charity.

He also notes that without the sophisticated ATM network, the explosive growth in Portugal's mobile phone sector would not have been possible. This is because, under the country's popular pre-payment scheme, mobile phone users are able to "charge up" their phones by transferring money from their accounts to their mobile operator via a cash machine.

ATMs have also played an important part in the development Portugal's sophisticated motorway toll system. This scheme relies on an electronic tag arrangement and allows a driver's bank account to be debited automatically when he uses the motorway.

The ATM network has also enabled Portugal to become a pioneer in the development of electronic cash. Money can be easily loaded on to an electronic purse card via an ATM. But the public has shown little appetite for using cards instead of small change and the capability has not yet been widely exploited.

SIBS is at the forefront of efforts to develop ATMs further. Indeed, a new generation of machines look more like computer keyboards than traditional ATMs.

Mr Santos says the new machines will allow users to tap into the internet and their possibilities as information dispensers will be much greater. Functionality will increase, too. He is particularly excited about the possibilities of linking ATMs with government departments. In due course, this could allow ATM users to collect their social security entitlements or their driving licence via the ATM, greatly assisting the efficiency of the Portuguese civil service and helping people to bypass its unwieldy bureaucracy.

There is one significant constraint on all this – and that is people's time. Mr Santos acknowledges the dangers of long waits and impatient queues.

Users will be allowed to dally over the new generation of information-only machines. But where cash and payments are concerned, he says, "two minutes is the longest we can allow for the transaction. We don't aim to offer very complex services which delay the consumer too much".

HOUSEHOLD DEBT by Christopher Brown-Humes

Big spenders start alarm bells ringing

The government has set up a special department to help people who are seriously in debt

Very little seems to threaten Portugal's benign economic outlook these days. But, if there is a niggle, it is over the rapidly rising level of household debt.

António de Sousa, governor of the Bank of Portugal, has warned several times in recent speeches that consumer spending is growing too rapidly.

The central bank has taken its first steps to cool the situation by forcing the country's banks to increase their provisions for consumer credit by 0.5 percentage points from 2 to 2.5 per cent.

In addition, the government has just set up a special department to help people who are seriously in debt.

Mr de Sousa stresses that it is not the absolute level of consumer debt that is worrying so much as its explosive growth in recent years.

The trend, which has been particularly pronounced in the past two to three years, reflects lower interest rates, higher real incomes and enormous pent-up demand.

Mr de Sousa notes that in the 1980s there was no consumer credit market in Portugal because of legal restrictions, the high cost of borrowing and lack of appetite for such lending by the banks.

But the legal framework has been relaxed and interest rates have fallen dramatically from levels prevailing earlier in the decade.

"We are living for the first time in a world where consumer credit is a big thing in Portugal," says the bank governor.

Booming sales of cars and consumer durables are testimony to the change in attitudes. The surge in spending has inevitably hit the household savings ratio, cutting it from 16 to 17 per cent at the beginning of the decade to 8 per cent now.

Moreover, last year was the first time household credit amounted to more than 50 per cent of the total credits given by banks.

António de Sousa: warned that consumer spending is growing

Mr de Sousa says: "Year after year for the past seven or eight years interest rates have moved lower from quarter to quarter and month to month. A lot of people have not experienced even one rise in interest rates.

"What I have tried to indicate is that there will be an end to this trend. You cannot expect the cost of debt to continue to go down. The probability that interest rates will go higher in the next five to 10 years is almost 100 per cent."

He is particularly worried about the impact on the housing market. "Three years ago you could afford a certain type of home," he says.

"Nowadays, you can afford a much better home, but that is with interest rates where they are today. In five years time you could be faced with monthly payments that are beyond your means."

Mr de Sousa is not the only person concerned. Miguel Beleza, a senior economist with Banco Comercial Português, the country's biggest listed bank and himself a former central bank governor, says: "The level of indebtedness is not enormous today. But problems would arise if it carried on growing as it has been doing."

Signs of "overheating" are not easy to find, though. Although there was some speculative froth in the stock market early last year it has since evaporated. And as yet there has been no increase in bad debts, which remain at remarkably subdued levels.

Indeed, the nearest Portugal has come to a warning sign is that household debt levels are approaching the European average for the first time. Nevertheless, the worry remains that bad debts will tick up once the interest rate cycle turns.

Mr de Sousa admits there is not much more he can do if his warnings go unheeded. "The only thing we can do is see if the banks are taking appropriate care of the risks they are incurring," he says.

MOBILE PHONES by Christopher Brown-Humes

Handset market grows rapidly

The penetration rate of mobile phones last year in Portugal was 30 per cent

There is no doubt about the latest craze sweeping Portugal – mobile phones.

Growth in the market has been explosive in the past two years, much to the surprise of industry experts.

Indeed, there were more mobile phones per head in Portugal at the end of last year than in any other European country apart from the Nordic states and Italy. The penetration rate was 30 per cent, compared to just 6.7 per cent two years before.

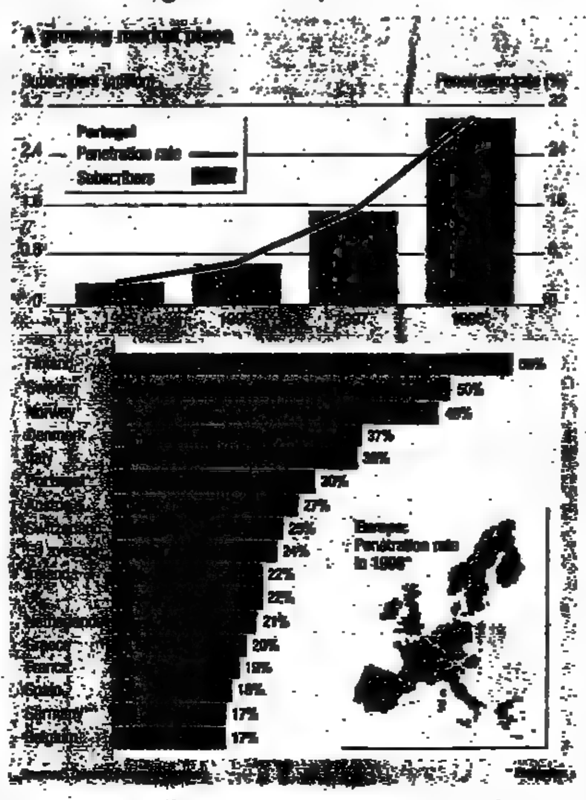
The rapid pace of growth is surprising, perhaps, in a country whose gross domestic product per capita is just 70 per cent of the European average and where the penetration of fixed telephone lines has never been as extensive as in other European countries. But it reflects both the Portuguese love of technology and other factors that, with hindsight, provided solid foundations for the market lift-off.

Mobile phone operations began in Portugal in 1989 when TMN, a subsidiary of Portugal Telecom, was launched. Three years later, the market gained some momentum when the GSM standard was adopted, and a second participant, Telecel, entered the fray. But even then, mobile phones were still very much a luxury item and sales were slow to pick up.

Arguably, the single biggest spur to the market came in 1995 when TMN became the first company in the world to introduce the pre-paid package for mobile phones. The practice, since adopted by all the other operators, has proved to be extremely popular. For operators, it means no bad debts. For customers, it means being able to "charge up" their phones in advance, either by calling a special phone number or using a cash machine to transfer a credit to the phone operator.

This gives customers control over costs, and they can see the value of any remaining call time on their phone screens. They can usually make instantaneous credit transfers from their bank accounts to their operator, although occasionally there are delays in the process. During the wait customers can receive only incoming calls.

There are more than 3m mobile phone subscribers in Portugal



"The pre-paid concept is the most profitable means of reaching lower usage customers," says Antonio Coimbra, a vice-president of Telecel. Portugal Telecom will soon adopt the pre-paid system of the Brazilian mobile operator it bought last year.

At the end of 1996, consensus estimates suggested that the mobile penetration rate for Portugal would only be about 10.5 per cent at the end of 1998. Why was everyone caught out? Because the market entered a new stage of ferocious competition, with price-cutting, subsidisation of handset prices, and the effects of peer pressure all taking hold.

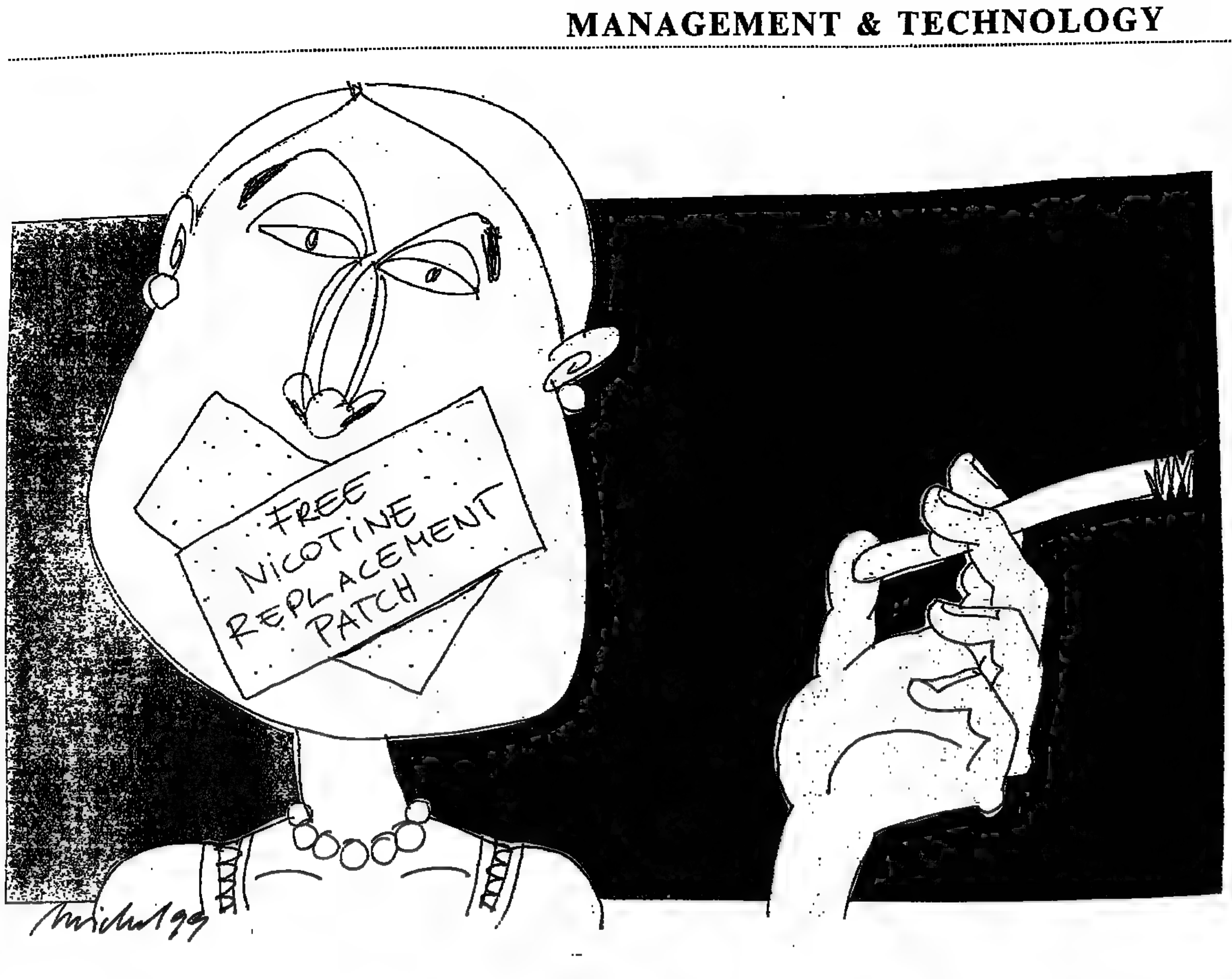
These forces were all in evidence last year when Portugal's penetration rate doubled from 15 per cent at the end of 1997. Moreover, a third participant, Optimus, entered the market, and used aggressive price cuts as a way of gaining a foothold. The result was heavy price-cutting all round. Portugal Telecom reckons TMN's average prices fell by 26 per cent last year as a result.

At the end of last year, TMN led the market with 1.42m subscribers, more than 46 per cent of the market. Telecel came a close second with 1.37m subscribers, while Optimus had nearly 300,000 customers – a credible performance because it launched only in September.

"We think there is room in the market for all three operators. We estimate that in the long term each of them will grab a third of new customers," says Joao Pina Rebelo, an analyst with Banco Portugues de Investimento.

The challenge for all operators will be maintaining margins at a time of continued price pressure and falling average revenues per user. Most new subscribers are not such heavy users of mobiles as existing ones. Margins will be held only if operators are able to lift subscriber volumes, cut costs, and improve processing and technology.

Where does the market go next? "This year Portugal will have a penetration rate of 40 to 44 per cent. In the longer term, we think 70 to 80 per cent could now be possible," says Francisco Murteira Nabo, president of Portugal Telecom. At that rate of growth, the number of mobiles will overtake the number of fixed line phones as early as next year.



HEALTH SMOKING

Warnings not a patch on drugs

Pharmaceutical companies are backing the anti-tobacco campaigns of governments and international agencies as they sense a new global market opening up, writes **Peter Pallot**

Britain's 12m smokers are about to be blitzed again by health campaigners. This time, however, carrots rather than sticks will be in evidence. From the beginning of April health authorities will have funds to start free distribution of nicotine replacement patches designed to "unhook" smokers.

The move, foreshadowed in a government policy paper last December, is part of a £60m ($98m) drive to curb a habit responsible for one in six of all deaths. For the first time, family doctors will be able to refer smokers for counselling. A week's starter supply of patches will be free to the financially disadvantaged.

While the UK government publicity talks up its new "quit" service, the drugs companies in the private sector can be expected to cause the biggest stir.

The three manufacturers of nicotine replacement therapy – SmithKline Beecham, Novartis and Pharmacia & Upjohn – have sniffed a big new market opening up. It is expected to double in size within a year to £80m as the anti-smoking drive takes off.

An idea of how pharmaceutical companies gauge market growth is given by SKB's NiQuitin CQ patch: in November 1998 the company spent £12m launching the product, which includes a tailored advice programme.

More significant, however, is the way the companies are funding governments and international agencies in a commercial war against the tobacco barons. Along with Glaxo Wellcome, it is backing research studies and publicity drives with a common aim: to reduce the number of smokers. Tobacco companies want the reverse. Thus two powerful industries are coming into direct conflict.

The World Health Organisation is soon to launch an anti-tobacco drive across Europe with about £1m given by nicotine replacement manufacturers.

Dr Peter Anderson, regional adviser to the WHO, told 2,000 delegates at the Second European Conference on Tobacco or Health that the pharmaceutical industry's expertise "would get popular support and cultural change for action" against tobacco.

Last month's meeting in Gran Canaria was strongly sponsored by drug companies. Chief among these was SKB, which has trained more than 4,000 pharmacists in the US in how to approach customers and persuade them to quit. It is funding a European Union research project in which 10,000 smokers have been quizzed in depth about their habit.

Commercial backing for the tobacco control lobby follows a 35-year campaign by public health doctors which, speakers admitted, had achieved little.

For all the widespread knowledge that tobacco can be lethal, more cigarettes than ever are now sold worldwide.

Women smokers already outnumber male smokers in Denmark and Sweden; this could soon happen in Britain too, where the number of teenage girl smokers is rising. Smoking is also increasing in Austria, Greece, Italy, Luxembourg and Spain. In Moscow, half of male teenagers smoke. Worldwide there are 1.1bn smokers.

Companies are funding governments and agencies in a war against the tobacco barons

Every move by the public health lobby appears to have been artfully snuffed out by the tobacco companies.

Luk Joosens, a tobacco control expert from Belgium, points to the way tobacco companies whitewashed themselves in the 1970s by inventing "clean" low-tar cigarettes. Benson & Hedges Ultra, Marlboro Lights, and Matinee Extra Mild King Size were born.

Filters were promoted as reducing cancer-causing tar, although a separate paper at the conference showed low-tar cigarettes were just as carcinogenic as conventional brands.

Advertising bans turned out even better for tobacco companies. Sponsoring Formula One motor racing was far better promotion than advertising, comments Mr Joosens, as was sponsoring youth festivals and distributing give-aways. Health warnings on packs were too small to be effective.

Governments increased tobacco tax but even this move was threatened by growing cross-border smuggling, Mr Joosens says. Emphasising this point, Dr Anderson claims that as many as one cigarette in three smoked in Europe is smuggled.

Just how effective stop-smoking campaigns prove will depend ultimately on stopping children taking up what Padraig Flynn, who wrote the current directive as European commissioner responsible for health, calls a "uniquely dangerous habit". It accounts for 500,000 deaths a year in Europe alone, he says.

Given that level of mortality, speakers at the conference stressed the need for action to help smokers stop now. More than 30 studies have shown nicotine replacement therapy to be safe at the highest dose. It doubles to 28 per cent the proportion of attempts to quit that are successfully sustained.

Dr Anderson calls for a "massive investment" to train family doctors and nurses in helping people to stop smoking. Nicotine replacement, which costs about £160 for a 10-week course, is highly cost-effective for the number of lives saved, he argues.

It is barely surprising, then, that officialdom is throwing its weight behind nicotine replacement, which until fairly recently was restricted to prescription sale in most of Europe.

Meanwhile, tobacco companies seem relaxed about the alliance against them of pharmaceutical companies, doctors and health agencies – perhaps because the gathering clouds of disapproval are less noticeable outside Europe and North America.

Low prices and slick selling are ensuring a rosy future for tobacco traders. In the Philippines tobacco companies supply 10 per cent of television company revenue.

Even so, governments everywhere appear to be waking up to the true price of smoking. The escalating war in the west between the tobacco and pharmaceutical industries looks set to become a global commercial conflict.

JOHN KAY

Creativity at centre stage

The European directive on intellectual property has been hijacked by publishing interests masquerading as benefactors of writers and artists

In common with Nana Mouskouri, Iron Maiden, Tom Jones and German hip-hop group Die Fantastischen Vier, I am a creative person, providing original material for the entertainment and edification of the citizens of the European Union. Unlike my fellow artists, who recently successfully petitioned the European parliament under the banner of "artists for strong copyright", I think that the draft directive will damage, not help, our interests.

Like other artists, my first concern is to propagate my ideas as widely as possible. My second concern is to get credit for these ideas. My third objective is to be well paid for them. So why is it that the proposed directive has at its heart the obligation to allow a right "to prohibit direct or indirect, temporary or permanent reproduction by any means and in any form", when prohibiting reproduction is exactly the opposite of what we creatives want to achieve?

The answer is that the law of intellectual property has been hijacked by producer interests which want to build commercial monopolies in books, journals, records and software on the back of exclusive access to original talent.

Now I doubt if Iron Maiden had thought deeply about the future of the knowledge economy when their agent or publisher persuaded them to sign a petition headed "Take a stand for creativity, take a stand for copyright". They were probably told that dissemination of their work depended on a strong publishing industry. And to a degree this is right. But not to such a degree that the interests of creative talent and its publishers are identical.

Publishers may tell us that the distribution of Iron Maiden songs, or of my nearly completed and nearly unreadable monograph, depends on their ability to protect their copyright. But this is largely wrong. Iron Maiden is in the same position as Jane Austen and Charles Dickens, whose books are widely available despite the absence of copyright, because demand is large.

And my monograph does not gain anything from copyright because the demand for it is small and in practice no one is going to copy it. My problem is to find any publisher at all.

The directive attempts to protect rights-holders, rather than creative people. The production of scholarly journals emphasises the distinction. When you submit an article to an academic journal, the publisher requires you to assign the copyright, and the rights-holder takes over from the author. The main producers of academic articles are universities, and the main users of academic articles are universities.

The net effect is that universities pay large sums to publishers for severely restricted rights to use the material they themselves have created. Indeed, under the proposed directive, the only way to avoid paying for a copy of an article you yourself have written is to write it again.

It is difficult to fathom how this system represents "a stand for creativity". It is true that in its absence there would be fewer academic journals. But almost everyone I know in the university world thinks that would be a good thing.

Robert Maxwell, the late publishing tycoon, led the exploitation of this system. He launched dozens of journals. Some were successful. They became the leading publications in their field, and all universities had to subscribe, whatever the cost. Most failed academically, but continued to publish second-rate material.

The result has been a proliferation of journals, many of them publishing only bad articles, to the profit of no one but the publisher. And this has reinforced the publish or perish culture.

These anomalies and distortions could be reduced if universities retained copyright in the work of their employees, rather than allowing them to give it away to publishers. If there is to be a copyright licensing agency it would surely be more sensible for universities to license publishers to use the material produced in universities rather than – as at present – publishers licensing universities to use the material produced in universities.

And this would be the beginning of a system aimed at fostering creativity. It is important to creative people – Iron Maiden, Jane Austen, and John Kay – that they should be able to insist that their work appears only in ways which respect the integrity of the original.

It is important to creative people that they should be able to disseminate their work as widely as possible. It is important to creative people that they should be rewarded for the work they do.

The right of their publisher to prevent unauthorised reproduction – which is at the heart of the copyright directive – achieves these objects incidentally at best, and often conflicts with them.

These issues really matter in a knowledge economy and an information age. We need to encourage the widest possible dissemination of new ideas and innovations and reward those who produce them in direct relation to the originality and economic importance of these ideas and innovations.

A system of intellectual property that achieves this would be based, not on a legal analysis of rights, but an economic analysis of costs and benefits.

The basic principle should be open reproduction for reasonable reward. One of the first things the new European Commission should do is rethink the copyright directive from scratch. There might even be an advantage in having a professor of economics as its president.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

PAUL TAYLOR
IN LONDON
VIEWPOINT@FT

Industry must help write the rule book

Companies need to work with governments to draw up sensible regulations for electronic commerce

There is less than a week left to submit comments on the UK government's proposed Electronic Commerce Bill – proposals that have prompted a heated debate not just on encryption but also on the appropriate role of government in the regulation of the internet.

Coincidentally, Therese Torris, a consultant with Forrester Research, the US-based IT consultancy, has just published a report called *Braving EU Net Regulation*.

The report, based on interviews with government officials, legal experts, industry associations and net commerce providers throughout Europe together with 50 European e-commerce executives, examines the new regulations that are set to shape the development of the internet economy in the European Union.

The central thesis of the report is that companies cannot afford to stand back and wait for regulations to be approved.

"Over the next 10 years, new regulations will shape the personality of the internet economy in the EU," says Ms Torris. "These regulations will make or break net commerce. Companies must take the bull by the horns and work together with national, regional and global regulators to co-regulate the net.

"Today, the regulatory environment for net commerce is a morass of contradictions, gaps and confusion that threatens the maturation of this revolutionary channel."

While existing laws can in principle handle most net commerce issues, jurisprudence and advice are lacking – and cross-border and new-media issues reveal legal holes and conflicts.

Industry blames regulators for the uncertainty. Significantly, 84 per cent of those companies contacted said the EU's regulatory stance affects internet development either negatively or very negatively.

Top of a list of critical issues for net commerce were encryption, digital signatures, taxation, privacy, copyright and trademarks. In every case only a small minority thought regulators have had a positive effect. British companies criticise EU policy as interventionist while French companies are the least dissatisfied with it.

Nevertheless, Ms Torris notes that companies need to press ahead, so they must base their compliance strategies on pragmatic risk management. In particular she suggests that companies base their strategies on the assumption that net commerce is ruled by the law of the country of the seller.

She argues that "the EU must move fast to remove the obstacles presented by the current legal patchwork and create a more predictable environment".

Failure to do so, she warns, could shrink the EU internet economy by as much as a third of its potential in 2003.

In order to address these issues she suggests that EU regulation move towards global, flexible co-regulation – a formal process of collaboration between government and businesses. "Net commerce leaders must prepare to drive the co-regulation process and foster legal expertise and technology solutions."

If the EU manages to foster a co-regulatory environment, she suggests, it will spread to other industries and geographies, including the US where she notes that even though the federal government vowed to leave net commerce alone, there is growing impatience with the slow progress of self-regulation.

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European governments – and what is left of the European IT industry – are sometimes accused of wielding regional "standards" as a means to shut out or slow down external competition.

For example, there is little doubt that early agreement on the pan-European GSM digital telephony standard helped Europe's mobile telephone equipment manufacturers to steal a march on their US and Asian rivals.

As a result GSM has become a de facto second generation world standard for mobile or digital telephony, with 324 systems operating in 118 countries across the globe and more than 150m customers – 55 per cent of the total wireless communications market. Nokia of Finland and Ericsson of Sweden have been the prime beneficiaries of GSM's success in their battle for market share against US companies such as Motorola.

In contrast, the development of digital wireless networks in the US and elsewhere has been constrained by competing technologies and the lack of an industry-government agreed standard.

Recognising this, discussions between the US and Europe over technical standards for third generation mobile systems based on CDMA (code division multiple access) technology had become quite heated and led to a sharp exchange of letters between Madeleine Albright, US Secretary of State, and Martin Bangemann, the former European commissioner for industry.

These third generation systems, due to be launched after 2002, will enable subscribers to receive multimedia services such as moving images on their handsets.

Fortunately, however, at least one dispute appears to have been avoided by a last-minute agreement between Qualcomm, the US wireless systems supplier, and Ericsson.

Last week the two companies settled an intellectual property dispute that had been delaying the development of third generation mobile phones. Under the agreement the two companies will abandon their litigation against each other and cross-license CDMA patents.

The agreement has been warmly welcomed by GSM and satellite operators, regulators and administrations around the world.

Sadly, however, the agreement does not address the core issue of establishing a single world standard for third generation systems. Last year European manufacturers agreed to adopt w-CDMA which is similar to, but incompatible with, Qualcomm's CDMA 2000 system, which will be adopted in the US.

The International Telecommunications Union, the United Nations body responsible for telecoms standards, which recently met in Brazil, also appears to have given up on setting a single world standard.

As a result subscribers and manufacturers will have to put up with different phones for different geographical areas for at least five years. Once again it seems that politics will win out over commonsense.

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Is an internet service provider more like a telecommunications operator transmitting information on behalf of others, or a traditional publisher responsible for the contents of a newspaper, magazine or book?

In other words, should an ISP be held accountable for the information transmitted by its systems or stored on its server hard disks?

This issue is at the crux of a landmark ruling delivered on Friday by the High Court in England where a judge decided that ISPs do indeed "publish" material, and that if they know they are carrying libellous material they cannot rely on the so-called ISP's defence.

The case, brought by Laurence Godfrey, a physicist, against Demon Internet, could have far reaching implications for the internet industry. Specifically, Mr Justice Moreland upheld the "strict liability" rule that knowledge of the defamatory nature of the material is not essential to "publication".

Demon, like its counterparts in similar cases in the US, argued that its operations were like those of a telephone company. However, the judge rejected this, saying: "I do not accept ... that the defendants were merely owners of an electronic device through which postings were transmitted."

Demon, which vowed immediately to appeal against the ruling, argues that the decision raises questions about free speech and censorship and could trigger a flood of complaints.

In Britain a defence of "innocent dissemination" is available to bookshops, printers and others unaware that their wares are defamatory. But Mr Godfrey's lawyers argued that this was not applicable when a provider is warned about the content of a message.

THE ARTS

Karajan pilgrims find reasons to return

The Easter ritual at Salzburg is still a rewarding experience, reports **Andrew Clark**

When Herbert von Karajan founded the Salzburg Easter festival in the mid-1960s, he must have known he was on to a good thing.

He had the services of the Berlin Philharmonic free of charge, courtesy of the German taxpayer. He had a well-equipped festival theatre at his disposal, courtesy of the Austrian government. And he had the wherewithal to stage his own opera productions – thanks to the "Karajan pilgrims", who stumped up an astronomical sum each year for the privilege of watching him realise his dreams.

It is 10 years since Karajan died, but Salzburg's Easter ritual survives. Even without the man who was the festival's *raison d'être*, there is no shortage of couples willing to pay Sch44,200 (£2,100) for a joint subscription. They, too, know they're on to a good thing.

It's impossible not to relax in Salzburg. The artists are just about the best that money can buy, and performances are timed to help you work up an appetite. This is not exactly culture for the common man. Some performances are just a bit too comfortable – but a certain standard is guaranteed, and that's why the "pilgrims" keep coming back.

This year's opera is *Tristan und Isolde* – the first Wagner in Salzburg since Karajan's death – but in contrast to recent festivals, the concerts have been the more rewarding part of the programme.

Claudio Abbado conducted Bach's B minor Mass with just 16 strings, no vibrato, lively tempos and outstanding vocal purity – above all from the Swedish Radio Chorus and the flawless French soprano Véronique Gens. Berlin Philharmonic's traditional tonal warmth gave the performance its authenticity.

Of the other concerts, Bernard Haitink's Mahler Four on Sunday evening was truest to the orchestra's traditions: a richly coloured poem in sound, with feeling and form in perfect harmony. Flooded we may be with Mahler performances, but the serene, almost valedictory air of Haitink's reading, and the chaste beauty of Inger Dam-Jensen's soprano solo, made this one extra special.

The singers moved like statues. The result was untheatrical

Taking its cue from *Tristan*, the Kontrapunkte series at the Mozarteum has been exploring the theme of love and war. These inexpensive daytime events, inaugurated by Abbado in 1994, are the festival's artistic conscience. They feature the Berlin Philharmonic's chamber ensembles, and the programmes are full of bright ideas. I caught the opening concert on Sunday morning, in which readings of Rainer Maria Rilke and Thomas Bernhard were interspersed with music echoing the ideas they explored.

The Rilke half of the programme was fascinating. It comprised a selection of vocal and instrumental music from the time of the 30 Years' War (Schütz, Schein and others), all of which provided a fertile counterpoint to Rilke's classic war poem *Die Weise von Liebe und Tod des Cornets Christoph Rilke*, in a virile reading by Gert Voss.

With *Tristan*, Abbado recalled the founding purpose of the Easter festival, which was to perform Wagner. This is only his second Wagner opera, and he still seems to be feeling his way. Saturday's performance blew hot and cold: even in the overture there was little correlation between the inertia of the opening bars and the intensity of its climax.

In the second act, too, the central duet came across as a becalmed musical interlude within feverish parentheses. The constant contrast of crescendo and decrescendo turned *Tristan* into a bed of episodic delights, rather than the great musico-dramatic arc which it really is.

Despite these limitations, the Berlin Philharmonic remained the undisputed protagonist. Thanks to Abbado's rearrangement of the pit (violins in the middle) and the obvious engagement of the woodwinds, the inner voices came across with rare clarity. And the sheer size and beauty of orchestral sound was unassailable. Which was just as well, as there was all too little happening on stage.

There is nothing wrong with leaving the sensual storms of *Tristan* to the orchestra, but it should be no excuse for visual inertia. Klaus Michael Grüber, the German director whose *Parsifal* in Amsterdam was well received a few years back, followed the modern trend away from the work's surface passions.

Unfortunately, he had nothing to put in their place. If, by denying the lovers physical or eye contact, Grüber was trying to express the timeless, metaphysical aspect of love, he failed, because the singers moved with all the animation of statues. The result was the most untheatrical *Tristan* I have seen.

Eduardo Arroyo's decor was a curious mix of realistic and anti-realistic. The ship in Act 1, running the width of the vast Grosses Festspielhaus stage, looked like a computer-graphic of a steel hull, but the crew still pulled ropes and a comical lighthouse drifted by. Act 2 was a symbolic moonscape of two leafless trees, Act 3 an earthbound construction of bricks and mortar. Grüber's one coup was to put out the lights in the Act 3 prelude, leaving us to feel our way through Wagner's – and Tristan's – lonely night of despair.

By leaving the singers to their own devices, Grüber at least allowed them to stand centre-stage and be heard. Ben Heppner sang a more confident Tristan than last summer at Seattle. The voice blends naturally with the orchestra, but has a bright clarity of its own, and Heppner never resorts to forcing. He may have looked odd in his Act 3 bathrobe, with no bandages, no emotional blood-letting, and he doesn't really act, but he can sing the part like none other.

Deborah Polaski's Isolde is the best thing she has done: radiantly lyrical in the first two acts, followed by an angelic *Liebestod*. Flatteringly costumed by Moidele Bickel, she looked slender and feminine – a far cry from her previous Wagner heroines. Marjana Lipovsek, an overrated mezzo, was the bland Brangaene, while Matti Salminen sang King Mark as imposingly as ever.

Florence and Tokyo are due to hear this *Tristan* over the next few months, before it returns to Salzburg next year.

Triumph in Salzburg: Deborah Polaski in 'Tristan und Isolde' — Ruthwalz/Fotografin

Faulty family feud

THEATRE

IAN SHUTTLEWORTH

The Price
Bristol Old Vic

It is still difficult for Britons to appreciate the depth of feeling of Americans during the Great Depression that, because surely "the system" could not be to blame for the terrible depredations, it must all somehow be *their* fault.

In this respect, Arthur Miller's 1968 play *The Price*, revived at Bristol Old Vic, makes only partial achievements: it succeeds, with Miller's characteristic sensitivity, in translating such vast forces into individual, non-Olympian protagonists' lives, but – in Jan Sargent's production, at least – does not take us under the cultural skin to appreciate the full collective burden of such memories.

By Miller's standards, Sargent's production seems curiously low on passion. When brothers Victor and Walter Franz meet, after years of silence towards each other, to oversee the sale of their late father's remaining effects – a hoard of furniture which had once furnished his millionaire's home, then was simply stacked up in a garret after his ruin in 1929 – 40-year-old wounds are reopened. But although we feel the festering rancour, there is little sign of fire.

Malcolm Tierney's Walter, recovering from a long breakdown, now "owns" his feelings in that modern way which means that they are more often levelly recounted than forcefully enacted. As Victor, who sacrificed a promising academic career in science to become a cop on the beat in order to keep his shattered father, Clive Mantle expresses his obstinacy through gritted teeth and cold, civil smiles rather than letting it loose. (Mantle, and Susan Wooldridge as his wife Esther, also seem too young for their roles.)

Even at the climax, when both brothers are in relatively full spate, it is as if they have each spent so long in their different worlds that they cannot properly communicate with one another, even for a final fiery sundering.

The role of Gregory Solomon, the octogenarian furniture dealer, is written to steal scenes, and Bill Wallis does so excellently. He potters around Terry Brown's magnificently dressed set with a beautiful blend of Talmudic inscrutability, a deal-making routine which is as transparent in its intent as it is admirable in the execution (both brothers pay fulsome respect to the old man's performance), and a fainting fit that even Lady Macbeth would scorn as contrived.

Overall, though, Sargent and her cast do not take us far enough into this family; they allow us to see into the characters' lives, but we gain little real insight.

Until April 10 (0117-987 7877).

Musical tension in marriage of maestros

The marriage between music and dance, between Apollo and Terpsichore, is the quintessence of harmony between the arts. It takes a basic human instinct – moving to music is something that children do before they can walk – and makes it profound. Ear and eye converse intensely, and an audience feels alive as in no other circumstances.

Well, that's the theory, anyway. If only dance-music practice was like that more often, dance would be acclaimed as the important art that it only sometimes proves to be. In the triple bill being performed around the US by the Mark Morris Dance Group, Yo-Yo Ma plays in all three works, and Mikhail Baryshnikov performs in one. When did a choreographer/musician/dancer of such eminence last occur?

Masterful collaboration: Baryshnikov with the Mark Morris dancers in 'The Argument' — Daniel Pace

And yet for Yo-Yo Ma and Mark Morris such collaborations are not uncommon.

The three artists come together for the centrepiece of the programme, in which Ma and Ethan Iverson play – with intoxicating verve – Schumann's *Fünf Stücke im Volkston (Five Pieces in Folk Style)*. Ma and Iverson are onstage. The dancers, amid their activity, occasionally refer to Ma, now comically, now in temper, now in tenderness – as if making fleeting comments on the music – and Ma looks back at them calmly. Relations between these mercurial Terpsichoreans and this steady Apollo are not without their tensions.

The tensions come out of the music. Many of Morris's dance works have been about community and about individuals. Even when he made his version of *The Nutcracker* (1990), the central male-female romance was less vivid than the characterisations and the 1960s America-into-Utopia world he put them in.

But not so this Schumann piece, which he calls *The Argument*. It's a "can't live with you – can't live without you" piece, strangely, poetically layered. Although all six of its dancers – including Baryshnikov and Morris – register as distinct characters, "character" here is not the point. We see men and women almost entirely in context of each other. Conflict is a crucial element of each of the three male-female relationships.

The "argument" of *The Argument* is about conflict and harmony co-existing: it brings to the surface not just the tension and collaboration between cello and piano but also in the individual writing of either musical voice.

Even though the couples are differently dressed, and even though they all appear together in the final section, I cannot help feeling they are, really, different facets of one relationship. Even "relationship" is only on the surface of *The Argument*; though it appears to be about how men and women are when alone together, it could be about something more intimate – about self-contradiction.

Just as the music's very opening phrase presents an explosive, driving folk impulse that seems to be on the point of breakdown, so the dancers are always bursting into a dance and then changing their minds, or stopping. Do they want to dance together or alone? Do they want to express their feelings or just to dance? Do they need to be apart or together? The metrical but irregular or hesitant pacing, the pointing of a toe on to a musical beat: these are motifs that we "read" on several levels at once – as psychologically expressive behaviour, as "Romantic" gesture, as "spontaneous" response to music, as modern "folk" style.

Morris has, in fact, arranged two versions of *The Argument*. The other, not for three male-female couples but for Baryshnikov and three women, will be seen during the spring-summer tour of Baryshnikov's White Oak Dance Project (reaching Sadler's Wells Theatre in London in June). It will be interesting to compare and contrast the implications of the psychological refractions in the two different "texts".

But it is yet more interesting to compare Morris's response to Schumann to his very different responses to Bach and to Lou Harrison on this same Yo-Yo Ma/Mark Morris Dance Group programme. The Bach, set to the Suite No 3 for unaccompanied cello, is *Falling Down Stairs*: a choral piece, starting with a human steeple that tumbles apart into a congregation of separate moods and impulses, both upwards and downwards in physical shape, both sacred and secular in feeling.

The Harrison is *Rhymes with Silver* – a luminous score of wonderfully varied sonorities and rhythms, a score of gorgeous and energetic modernism, commissioned by Ma, for cello, piano and percussion. Morris's choreography contrasts fluent dance rhythms with angularly sculptural shapes, and sets vivid solos amid a pulsating ritual ensemble.

The dancers are, throughout, glorious; Baryshnikov is taut and exemplary. Morris is complex and exuberant, but they steal thunder from nobody else onstage.

What living choreographer could provide so varied a programme of work? Even to those of us who have been watching Morris's choreography for years, he remains a bewilderment. The contradiction that he makes expressive in *The Argument* is his very essence as an artist.

Alastair Macaulay

In April, Yo-Yo Ma, the Mark Morris Dance Group and Mikhail Baryshnikov will perform the programme of *Falling Down Stairs*, *The Argument* and *Rhymes with Silver* in Irvine, California; in Fairfax, Virginia; and in Columbus, Ohio.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Mar 31; Apr 2, 3, 4, 6

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Shakudo: display of Asiatic objects highly popular in Europe and imported in large quantities by the Dutch East India Company. Mainly they were luxury goods such as sword hilts and tobacco boxes; to Apr 5

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Picasso - Engravings 1900-1942: temporary exhibition with more than 250 works from the Musée Picasso in Paris. It presents Picasso's engravings as a diary, a daily examination of his emotions: it follows the different themes and techniques that inform the artist's work; to Apr 4

BERLIN

CONCERTS
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by R. Strauss; Apr 3
● Chicago Symphony Orchestra and Chorus: conducted by Daniel Barenboim in Brahms's German Requiem, with soprano Dorothea Röschmann and baritone Thomas Quasthoff; Mar 31
● Chicago Symphony Orchestra and Chorus: concert performance of Moses und Aron, by Schoenberg, conducted by Pierre Boulez, with a cast led by David Pittman-Jennings and Chris Merritt; Apr 1
● Staatskapelle Berlin: conducted by Pierre Boulez in Mahler's Das Lied von der Erde, with tenor Jon Villars and baritone Roman Trekel; Apr 4
● Staatskapelle Berlin: conducted by Daniel Barenboim in works by Beethoven and Wagner, with soloists including tenor Jon Villars; Apr 5

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Cinderella: staging by Roberto de Oliveira. Kevin McCutcheon conducts Prokofiev's score; Mar 31; Apr 3

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Rudolf Piehlmayer in a staging by Götz Friedrich; Apr 1
● Matthäus-Passion: Christopher Hogwood conducts Johann Bach's and Felix Mendelssohn's score; staged by Günther Uecker, Götz Friedrich and Dietlinde Calsow; Apr 2, 4
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Lohengrin: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Apr 4
● Tannhäuser: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Apr 2

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
Museu Nacional de Arte Antiga, Lisbon: this latest in the museum's Great Collections series leads visitors through seven centuries of Portuguese art and history. to Jul 11

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: presented as part of the Great Performers Series in works by Mozart and featuring Alfred Brendel on piano and Lucy Jeal on violin; Apr 6

LISBON

EXHIBITION
Centro Cultural de Belém
Tel: 351-1-361 2400
Alvar Aalto in Seven Buildings: Centenary exhibition of the Finnish architect Alvar Aalto; until May 16; to May 16

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Orchestra of the Age of Enlightenment: this period instrument ensemble makes a welcome return starring Nathalie Stutzmann (contralto) and directed by Catherine Mackintosh in works by Corelli and J.S. Bach; Apr 6
Royal Festival Hall
Tel: 44-171-960 4242
BBC Symphony Orchestra and Chorus: conducted by Andrew Davis in the world premiere of Richard Causton's Millennium Scenes, and works by Britten, Birtwistle and Tippett; Mar 31

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 3
● Salome: David Atherton conducts Richard Strauss' opera, starring Vivian Tierney as Salome in David Leveaux's production; Apr 1

LOS ANGELES

CONCERT
Music Center: Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Antonio Pappano in works by Honegger, Liszt, and Mendelssohn; with Jean-Yves Thibaudet on piano; Apr 1, 2, 3

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Bach Choir and Orchestra: conducted by Hanns-Martin Schneidt in Bach's St. John Passion; Mar 31

NEW YORK

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Jim Dine: Walking Memory, 1959-1969. More than 100 works make up this survey of the American artist, including photographs, paintings and performance pieces; to May 16
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Masterpieces of Photography from the Gilman Paper Company: 45 of the greatest 19th century photographic works from the collection; to May 23

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Mar 31; Apr 3, 6
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo, replaced by Yuri Marusin on Apr 3

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Apr 1

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
New Japan Philharmonic: Hiroshi Wakasugi conducts in works by Alban Berg and Kurt Weill; with Mari Midorikawa and Michio Tatara as soloists; Apr 5

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-51444
Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood; Apr 6

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Chagall, Kandinsky, Malevich and the Russian avant-garde: exhibition exploring the artistic upheavals earlier this century; to April 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

MARTIN WOLF

German handicap

Few have realised the most dangerous feature of Emu: it has locked Germany into a seriously uncompetitive real exchange rate

Just how good are German workers? Very good indeed is the answer: well-educated, expertly trained and highly motivated. But are they good enough to offset the cost disadvantage under which they are now toiling?

German production workers are some 50 per cent more expensive than those in any other member of the group of seven leading industrial countries. Worse, because of economic and monetary union, there is little Germany can do about it on its own. The powerhouse of Europe has fallen into a trap. Its only escape is a weak euro.

The table shows Germany's cost disadvantage with depressing clarity. The data come from the web site of the bureau of labour statistics of the US department of labor.* They show hourly compensation costs for production workers in manufacturing. The costs are converted at actual exchange rates for the year in question and include direct pay, benefits (such as paid holidays) and expenditures on social insurance and contractual benefit plans.

These data are only for west Germany. In 1997, average costs in east Germany were 64 per cent of west German levels. Even so, east German labour was still as expensive as American and French and more expensive than Italian and British. Moreover, the average hourly cost for Germany as a whole was only 3 per cent below that for west Germany, the reason being that 90 per cent of jobs in manufacturing were in the west. This uneven distribution of employment is explained, in turn, by the uncompetitiveness of east German manufacturing at post-unification wages.

Three questions arise:

- Why have Germany's labour costs become so high?
- Does it matter?
- What, if anything, can be done about it?

Consider each in turn.

Germany has long been a country of relatively high wages. This, quite properly, reflects the strength of German manufacturing. But since the mid-1980s, its relative competitiveness has deteriorated markedly. This has happened for several reasons: the big decline in the value of the US dollar from its 1985 peak; devaluations within the old exchange rate mechanism of the European Monetary System, most significantly by Italy and Spain; and what French policy-makers refer to as "competitive disinflation".

Germany – of all countries – has lost the low inflation game. Between 1986 (the year of the last French devaluation) and 1997, French hourly labour costs rose 47 per cent in domestic currency; Dutch labour costs rose a mere 35 per cent. Over the same period, west German costs increased 70 per cent. Much is made of Dutch success with its reforms. What is most impressive is that in 1980 Dutch and German labour costs were nearly identical. By 1997, Dutch hourly costs were 27 per cent lower.

Turn to the second question. It can be argued that the high cost of labour is unimportant so long as high productivity offsets it. But this point, logically correct, is unconvincing in Germany's case.

One reason is that German output per hour in manufacturing is not high enough to offset the cost disadvantage. The McKinsey Global Institute has estimated that output per hour worked in manufacturing, between 1994 and 1996, was 20 per cent higher in the US and 10 per cent higher in France.** But German wage costs were almost twice US levels and one third higher than in France.

Another reason is that higher measured productivity can be a symptom of the underlying illness. Since companies must earn an internationally competitive return on capital, they dispense with activities (and jobs) in which workers are not productive enough to offset their cost. The significant question therefore is whether all the workers who want to work are employed. In today's Germany, the answer is no.

Who's the most expensive of them all?

Relative compensation for production workers in manufacturing (cost per hour)

	1975	1980	1985	1990	1995	1997
Germany	100	100	100	100	100	100
France	72	73	79	71	62	64
Italy	74	87	81	80	50	59
UK	54	62	66	68	43	55
US	101	81	137	68	53	65
Canada	95	71	115	72	50	59
Japan	47	48	67	58	74	68

Source: US Department of Labor; Bureau of Labor Statistics

On the contrary, Germany shows the symptoms of an economy in which companies are adjusting to high costs by dispensing with less productive activities and workers.

What one sees includes: a strong improvement in profitability in the business sector; a faster fall in employment per unit of gross domestic product than in the US, Japan, France or the UK since 1992; a fall of 5 per cent in total employment over this period; and, perhaps most revealing, a modest rise in the stock of inward direct investment, from $111bn in 1990 to $138bn in 1997, but a huge rise in the stock of German investment abroad, from $152bn to $326bn.

Turn then to the third question: is there any way to retain long-term competitiveness without sacrificing jobs? The answer depends on the efficiency of German workers. For businesses operating in the euro-zone, the issue is whether a given plant will yield returns greater, or less, in Spain or France than in Germany. Unless the German worker can produce 50 per cent more than the French or Spanish, the answer would seem to be "no". Over time, then, one would expect marginal investment to occur outside Germany. Germany will remain the domicile of internationally strong manufacturing enterprises, but these will increasingly produce abroad.

One popular suggestion for lowering the cost of employing a worker in Germany (and other continental countries) is to reduce social insurance charges. Yet such charges are a lower share of compensation in Germany than in France, Italy or the Netherlands. The difference between Germany and these countries is in direct pay, not overhead social charges. Moreover, shifting the fiscal burden from direct charges to general taxation will not necessarily lower labour costs. Workers may react to the higher taxation of income or spending by demanding higher pay.

A second way to lower the cost of labour is via modest rises in nominal pay. Germany would then be playing the "competitive disinflation" game it lost over the past decade or more. But this is going to be incredibly arduous, at least within the euro-zone. Assume, for example, that inflation averages only 1 per cent a year; that wages in most member countries rise at, say, 3 per cent a year; and that real wages in Germany remain unchanged, implying annual wage increases of only 1 per cent. Even on those wildly optimistic assumptions, it would take over 20 years for German and French compensation to converge.

The third way out is devaluation. But Germany cannot devalue against countries of the euro-zone, which took 42 per cent of its exports in 1997. It has to devalue against other countries. This includes members of the European Union outside the euro-zone – principally the UK, which took 8.5 per cent of German exports. Germany needs a weak euro. It also needs sterling to enter the euro-zone at as high a rate as possible. But all this depends on whether the European Central Bank, the markets (and, for that matter, the British government) oblige.

The most fascinating feature of the long debate about monetary union is, in retrospect, that it focused so heavily on German demands for central bank independence, low inflation, and fiscal stability. Some attention was also paid to what would happen to peripheral European economies, once they lost the option of devaluation.

Few analysts noticed that Europe's most important economy was about to lock itself in at what seems to be a significantly overvalued real exchange rate. In the run up to Emu, France, Germany's chief rival and partner, has won game and set. But whether it goes on to win the match depends on how Germany responds to its plight.

* http://stats.bls.gov/news.release/ichcc.toc.htm. ** McKinsey Global Institute, Driving Productivity and Growth in the UK Economy, October 1998.

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Confusion's masterpiece

The war aims of Nato and Milosevic seem equally unclear, says David Buchan

Poor visibility befuddles Nato bombers in the clouds over Kosovo. But the fog of war does not end there. Confusion also shrouds the war aims of both Nato and President Slobodan Milosevic. Their aims keep shifting. And the shifts are mainly towards a hardening on both sides, complicating the task of Russia's prime minister, Yevgeny Primakov, in trying to bridge the widening gap.

Far less, of course, is known about Mr Milosevic's aim. Is it to go down in history, all guns blazing, as the "defender of Kosovo"? Merely to cling on to power? To defeat Nato politically by increasing the cost of the war to a point the west finds intolerable? Or perhaps to force ethnic Albanians out of northern Kosovo, suffer Nato's early bombardment, and sue for peace on the basis of partition?

Yesterday's apparent offer of a ceasefire in Kosovo in exchange for an end to Nato's bombing might suggest Mr Milosevic is toying with the last alternative. But his brother, Borislav, who is the Yugoslav ambassador to Moscow, also said the Rambouillet peace plan signed by the ethnic Albanians was "all in the past". And the facts on the ground, the Serb offensive and the Albanian refugee exodus, appear starkly to confirm Mr Milosevic's hard line.

Equally stark are western leaders' recent pronouncements. At the start of the bombing, Nato's war aims fluctuated from "stopping a humanitarian catastrophe" to preventing a wider Balkans war. Yesterday, with the catastrophe unfolding, President Jacques Chirac of France added a new one. Charging Mr Milosevic with responsibility for 200,000 deaths in the Balkans in recent years, he said Europe could no longer tolerate such "a man and a regime". Tony Blair, the UK prime minister, added that Mr Milosevic would, for every barbarity, pay "a higher and higher price".

Nato's tougher war aims are not being matched by military means. The alliance has ruled out ground troops, for a mix of political and operational reasons which General Sir Charles Guthrie, the UK chief of staff, said yesterday he fully accepted. But in terms of outbluffing an enemy, he admitted, "in an ideal world, you don't close any option off".

The west's aims have fluctuated with the tide of war (or campaign in Nato-speak). Once the first two days showed Mr Milosevic was not going to be a pushover, Nato commanders started to give priority to military aims, such as "degrading" his war machine, which they could achieve by military means, regardless of whether he signed the Rambouillet plan.

Since then, events in Kosovo had made a stop to ethnic cleansing and to the refugee exodus the west's priority. But to ensure that any Serb ceasefire lasts, Nato insists that Belgrade would also have to sign up to Rambouillet and pull its forces out of Kosovo before it suspends bombing.

Despite their rhetoric, Nato leaders would jump at any serious chance of a deal with Mr Milosevic; Mr Chirac, for instance, has strongly encouraged Russia to mediate.

But "the terms on which a deal can be done are getting harder and harder", said a senior UK official yesterday.

Tightening ranks

When Nato came close to launching air strikes against Serbia last October, some western diplomats and analysts thought that President Slobodan Milosevic might be vulnerable to a coup from the armed forces. A week of Nato air strikes may have damaged the Serb military machine but Mr Milosevic still appears in full command of both of the military and the country as a whole.

He is seen daily on state media in the company of his top generals, but it is still the civilian leadership that holds the reins of power. The president's inner circle has closed ranks and there is no sense of danger to the regime from within.

Since last summer, Serbia's strongman has purged the top ranks of the military, police and secret services. He has replaced them with hardliners who said they could sweep the ethnic Albanian Kosovo Liberation Army (KLA) away in a week.

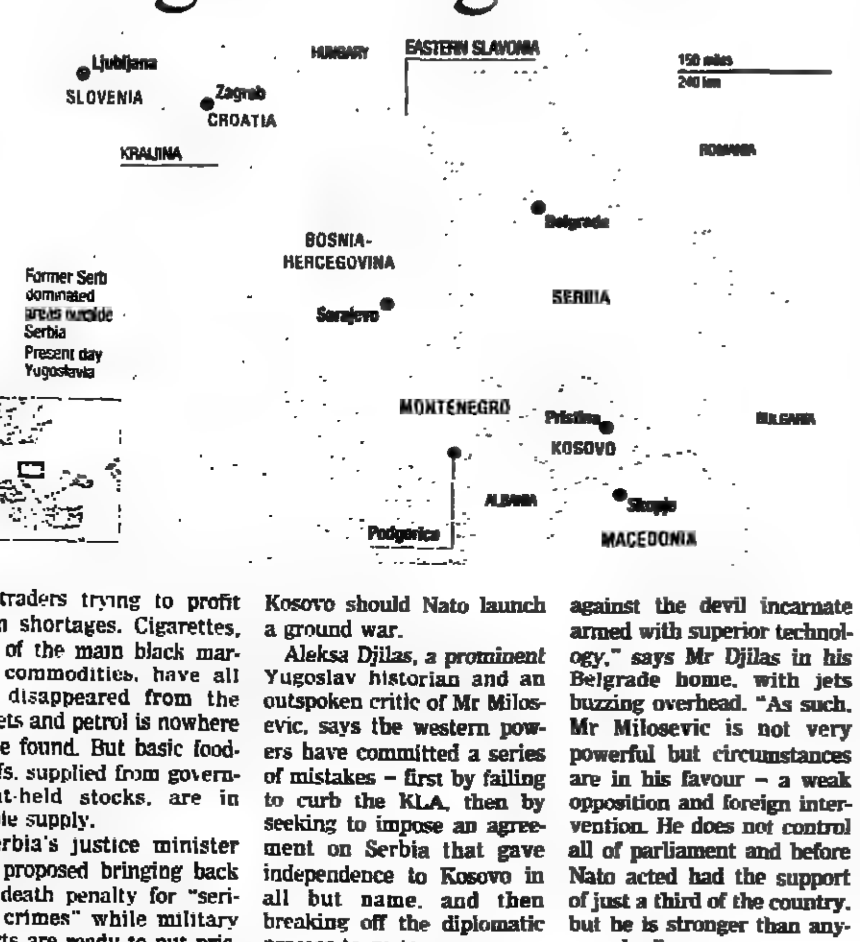
That advice seems to be borne out by events. Although reliable information from Kosovo is sketchy, it appears that only remnants of the KLA are holding out in a few pockets. Tens of thousands of refugees are flooding out of Kosovo.

In Belgrade there has been no breakdown in law and order, as some diplomats predicted. Using its powers under the state of war, the government imposed price controls and cracked down on traders trying to profit from shortages. Cigarettes, one of the main black market commodities, have all but disappeared from the streets and petrol is nowhere to be found. But basic foodstuffs, supplied from government-held stocks, are in ample supply.

Serbia's justice minister has proposed bringing back the death penalty for "serious crimes" while military courts are ready to put prisoners of war on trial. Young men are being drafted into the army and civilians are told to repair damaged military facilities. But whereas a few months ago many tried to dodge the draft, now they are volunteering to fight in Kosovo should Nato launch a ground war.

Aleksa Djilas, a prominent Yugoslav historian and an outspoken critic of Mr Milosevic, says the western powers have committed a series of mistakes – first by failing to curb the KLA, then by seeking to impose an agreement on Serbia that gave independence to Kosovo in all but name, and then breaking off the diplomatic process to go to war.

Serbia may end up losing Kosovo through war but it will still not necessarily rid itself of Mr Milosevic, Mr Djilas argues. "This is a situation in which he almost cannot lose. He's either Napoleon or says I lost against the devil incarnate armed with superior technology," says Mr Djilas in his Belgrade home, with jets buzzing overhead. "As such, Mr Milosevic is not very powerful but circumstances are in his favour – a weak opposition and foreign intervention. He does not control all of parliament and before Nato acted had the support of just a third of the country, but he is stronger than anyone else."



Under the state of war few Serbs are willing to criticise Mr Milosevic in public. Even Mr Djilas – a former research fellow at Harvard and son of Milovan Djilas, Yugoslavia's most celebrated dissident jailed by Tito – admits he feels "uncomfortable" criticising the president while the country is under attack.

On the streets of Belgrade it is President Bill Clinton and the US in general that is under attack. At a "music against the bombs" concert in the city's main square, a mock-up death certificate of Mr Clinton was passed around. Belgrade's main branch of McDonald's has been vandalised, the first sign that symbols of American culture are a focus of anger.

As Russia's prime minister Yevgeny Primakov prepared to fly to Belgrade to launch the first diplomatic initiative since bombing began, Mr Djilas noted it was ironic the English-speaking Milosevic had been "very US oriented and very indifferent to the Russians. Mr Milosevic had no serious foreign policy and he overestimated his room for manoeuvre with the US ... He had no clear vision of international relations."

And in another sign of the changing mood in Belgrade, Mr Djilas, who is part Serb by birth and has always declared himself a "Yugoslav", said he could imagine himself donning a uniform.

"In the war against Bosnia I would have avoided the draft. I would never have shot a Moslem. But now if I was drafted I would probably not resist."

Guy Dinmore

LETTERS TO THE EDITOR

However unwelcome, Nato's action is justified, legitimate and inevitable

From Mr Humphry Crum Ewing.

Sir, Some of your correspondents and others (such as Tony Benn, the Labour MP) have expressed concern about the "legitimacy" of Nato's military action against Serbia. Their two grounds are that it has not been authorised by the United Nations and that Serbia is a sovereign state. I suggest they misdirect themselves on both counts.

So far as the UN is concerned, the issues have been rehearsed at the UN on numerous occasions. Everybody agrees that what the Serbs are doing is unacceptable and that they should stop doing it. It is therefore up to anyone who may be able to stop them from doing this, by doing themselves something reasonable and proportionate, to do that as part of their common duty as world citizens.

So far as the sovereign state argument is concerned, Serbia is Serbia, that is to say one fragment of a former sovereign state (ie, old Yugoslavia). But that recognisable sovereign state has dissolved and, whatever its own claims, Serbia is not a sovereign state, successor to Yugoslavia, in any real sense of the term. Circumstances alter cases. It would have been preferable not to have had to attack Serbia, but there it is – precisely because Serbia does not have many of the necessary attributes of a sovereign state. These include defined international frontiers and an internally accepted national regime so that the authority of the central government runs throughout the territory concerned.

Only events can show whether the decision by Nato to strike Serbia was wise and effective. But we should be absolutely confident now that it is justified and a legitimate and probably inevitable course of action, however unwelcome.

Humphry Crum Ewing,
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Anguish for families of Serbs on the home front

From Mr Tim Fenton.

Sir, Whatever view your readers have formed on the rights and wrongs of the Nato action against Yugoslavia, may I bring to their attention the anguish in which thousands of people in the UK live while the bombs are falling?

Approximately 40,000 people of Serbian origin live in the UK, many of whom are married to "ordinary" British citizens such as myself. Since the Nato operation started I have had less than 12 hours' sleep. My wife's immediate family lives in Belgrade, others in Uzice and Nis, names that feature in reports on the bombing raids.

Hours are spent trying to telephone but the connections to Yugoslavia are almost non-existent. After two days my sister-in-law managed to reach us to say that they are safe but that a cruise missile had destroyed a telecommunications centre 200 yards from their flat. (Would the designers of these weapons stake their lives on their accuracy?)

But now we wait for the next call, the hours filled with triumphant news reports of yet another successful mission or "unconfirmed" stories of atrocities to stir the nation's passions and reassure those who dare doubt. And still we wait. An aircraft is reported missing. If it is the RAF's, will the nation's anger be vented on British Serbs, whipped up by a media intent on justifying this crusade?

The phone rings, but it is someone else whose nerves are frayed waiting, wondering "Did you hear anything yet?" or "Someone told us they hit your village/town/city". In a war in which not a single shot will be heard in the UK, and in which there will be possibly not a single British casualty, would it be too much ask to tone down the jingoism? I know that there are many in our situation.

Tim Fenton,
Station Road,
Henley-on-Thames, UK

Time to plan a peaceful solution to crisis is now

From Mr David Gee.

Sir, In the absence of peaceful solutions, everything indicates that suffering will spread and increase in Kosovo. We need to start making suggestions now, expert or otherwise, and make them widely known. I am throwing this possible solution into the vacuum for what it is worth. If anyone has the ability to make better informed suggestions for peace to the decision-makers, the time to do so is now.

First, Nato member states will withdraw their support for the attack and voluntarily call a ceasefire with a view to setting up talks without preconditions. The entire world (press, politicians, the public) then simultaneously invites Slobodan Milosevic to do the same. Halting the bombardment would not make conditions on the ground any worse than they already are, and it would be a bold step towards peace on the part of the international community.

Second, Nato member states will accept the transfer of control of Nato ground troops to the United Nations. With a Security Council mandate, the UN troops and civilian monitors will police the ceasefire with a guarantee of impartiality, and with a force large enough for a viable deterrent.

Meanwhile, the administration of the territory will be handed over to the UN – in neither Serb nor Albanian hands – for an interim period pending a successful peace agreement.

Finally, a country with no political stake in the outcome of the conflict (possibly a Nordic country), and trusted by both sides, will be asked to broker peace talks with people's representatives as well as political leaders. Kosovo will remain under international control until an agreement is forthcoming, however long that takes.

David Gee,
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Belgium

Failure is unthinkable – but success brings its own risks

From Mr David Habakkuk.

Sir, If your leader of March 27 is to be believed ("Thinking ahead on Kosovo"), Nato has drifted into adopting a new doctrine of humanitarian intervention, by bombing, in the affairs of sovereign states with the most minimal attempt to think through what bombing can realistically hope to achieve. It also suggests that the military logic of the campaign could end up meaning that Nato actions create either a fully independent Kosovo, or indeed the disintegration of the Yugoslav state, neither of which is actually an objective of alliance strategy.

Obviously, the consequences of a failure of the Nato intervention, now it has been embarked on, are liable to be horrific, both in terms of the message given to rulers who want to solve their ethnic minority problems by savage means, and in terms of the credibility and cohesion of Nato.

What, however, of the messages conveyed by a Nato success to other societies that face intractable ethnic problems? Is there not a risk that persecuted minorities will conclude that it is in their interests to provoke their rulers into more and more brutish forms of oppression in the hope of provoking Nato intervention?

Further, is there not a risk that those rulers will consider that the prompt acquisition of weapons of mass destruction is their only means of guaranteeing their security, and indeed survival, against the interventions of an alliance that makes itself jury, judge and hangman?

David Habakkuk,
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Nato lawbreaking will encourage separatists

From Mr Misha Simic.

Sir, In his enthusiasm for bashing the Serbs, Philip Stephens fails to appreciate the extent to which Nato has taken the law into its own hands ("Simple truths", March 26). Leave aside that Nato's war on Yugoslavia infringes its own charter, lacks Security Council approval and violates Article 2 of the UN Charter. Focus instead on the so-called Rambouillet "agreement".

This diktat violates the 1980 Vienna Convention on Treaties, which declares agreements negotiated under threat of force to be invalid. In paving the way for an eventual Greater Albania, Rambouillet also contravenes the Helsinki Act of 1975, which guarantees Europe's state borders.

If the bombing were to result in a Kosovo state, this would violate a customary rule of international law which prohibits recognition of unilaterally sessionist entities.

Nato's lawbreaking, if unchecked, will encourage separatists everywhere, undermine stability and result in more rather than less humanitarian disasters. This is truly a case of the proposed cure hastening the malady.

Nato missed an opportunity in early 1998 to uphold international law and promote Balkan stability. It could have occupied northern Albania's lawless border region with Kosovo to curb the Kosova Liberation Army training camps and stem the KLA's flow of weapons. Kosovo would have been spared much of the ensuing violence and the KLA would have realised that enhanced autonomy, already conceded in principle by Belgrade, was the most that they could achieve.

But such a pre-emptive move was deemed too difficult by Nato. Today Nato is bombing Belgrade and having to contemplate fighting its way into Kosovo.

Misha Simic,
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Tricky boundaries of treaties

From Mr Ian R. Jenkins.

Sir, I greatly enjoyed Philip Stephens' article on the bombing of Serbia. He made the interesting point that war against a sovereign state is permissible if Nato alone concludes that "international treaties against genocide, torture and the rest" have been sufficiently violated. Nevertheless, a technicality seems to be that these are not Nato's treaties; they are the United Nations', however unenforceable in practice.

Furthering the debate, in the article on Russia's debt and the International Monetary Fund ("IMF in vital Moscow loan talks today", March 27), a "regional expert" suggests that an economic strategy endorsed by the IMF overrides a nation's foreign policy. International money has been a remarkable device, up till now, in crossing the cultures of almost 200 nation states.

Therefore, for the removal of doubt in the future, perhaps the UN's economic agencies should officially be given responsibility for adjudicating on breaches of international treaties.

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Northern Ireland on the brink

From outside, the distance between war and peace in Ulster may not look very wide. But viewed through the prism of bigotry and fear, it may yet prove an unbridgeable chasm. As talks continued yesterday, the chances that Tony Blair, the British prime minister and Bertie Ahern, his southern Irish counterpart, could bring the two sides together looked precarious.

Little time is left to rescue the peace process that started on Good Friday last year. For if this week's deadline for setting up the 10-member power-sharing executive is missed, it is hard to envisage a breakthrough after Easter. Renewed violence during the Protestant marching season could quickly make things worse. And if agreement cannot be reached now, the British government will have to decide whether to go ahead anyway with the legal steps needed to set up the executive.

But this would be only a hollow shell. The Ulster Unionists would probably try to exclude Sinn Féin on the grounds that it had failed to secure any decommissioning of the IRA's terrorist weapons. If Sinn Féin leaders were not excluded, the Unionists would refuse to sit with them.

To establish the executive without agreement among the parties would therefore be failure by another name. What can be done to avoid it?

David Trimble, the Ulster Unionist leader, and Gerry Adams, leader of Sinn Féin/IRA have seemed genuinely anxious to reach a deal. But unless the IRA makes a significant gesture towards decommissioning, the two leaders will run out of things to say – if they have not already done so. Mr Trimble is a prisoner of his own party. It re-elected him recently amid jeers and heckling for the compromises he had already made. The Unionists in the assembly are split in half between moderates and extremists. For his part, Mr Adams cannot deliver decommissioning without agreement from the hard men in the IRA.

Decommissioning may now be only symbolic in importance. What matters is that weapons should not be used and that unionists and republicans – including Sinn Féin – should sit together in the new institutions.

But symbols matter also. The IRA must now demonstrate that it wants peace as well as power – if it does. This is needed not just to reassure the unionists, but to convince the rest of the world including the US. Since big concessions have already been made, including the release of IRA prisoners and a promised reduction in British forces, such a move could hardly be thought of as defeat.

Further compromise would no doubt be needed from the unionist side, but some credible gesture from the IRA now seems the irreducible minimum for avoiding collapse.

Japan's jobless

Japan's tradition of jobs-for-life was one of the underpinnings of its post-war economic system. This was the system that, for almost 50 years, allowed the country to achieve an enviable combination of near-full employment and excellent job security, with dominance in many of the world's most high-technology industries.

Yesterday, though, the extent of the decline of the jobs-for-life culture was revealed by figures showing that Japan's jobless rate is now higher than in the US. In fact, differences in counting the number of unemployed mean that Japan's unemployment rate is probably significantly higher.

The jobs-for-life system had some clear advantages. It ensured complete loyalty and dedication from a company's employees. But its fatal flaw was its inability to react to major economic shocks.

At the beginning of the current eight-year economic slowdown, Japanese companies kept their permanent employees on, despite falling profits. But the severity of the recession has recently forced a change in attitudes, and companies are now starting to substitute temporary staff for expensive "life-time" workers.

Prospects for these redundant employees are grim. Being mostly generalists, they have few transferable skills to offer other companies – many will never find work again. Yet because companies have traditionally taken on the role of providing welfare to their employees, Japan's social security safety net is extremely limited, leaving the unemployed high and dry.

As Japan's economy continues to stagnate, unemployment will rise further. There is still massive underemployment in Japanese companies, accounting for perhaps 10 per cent of the workforce.

Meanwhile many households are concerned about the adequacy of their retirement income, because of mounting evidence that employers have underfunded their pension schemes, and that life insurance companies are struggling.

What we are seeing is the gradual breakdown of an economic and social system, with all the uncertainties this brings. No wonder, then, that Japanese consumers are saving every spare yen they have, rather than spending it, as the government wants them to do.

Japan's hope is that this wave of unemployment is a symptom of a painful but necessary process of corporate restructuring, that will eventually bring the economy back to full health. This may be true. But one has to wonder how well even Japan's normally resilient society will bear up under the pressure of the difficult years to come.

Political fund

It's official: Russia really is too nuclear to fail. This can be the only conclusion from the International Monetary Fund's agreement, in principle, to resume lending in Russia. An IMF mission arrives in Moscow next week to attempt to conceal this political emperor in economic clothes. They will fool no-one.

In the wake of last August's economic and political collapse, the IMF has faced an unenviable choice. It can either lend more money to a communist-dominated government with no economic programme, which does not even pay lip-service to reform, or it can refuse to lend, which would mean that Russia would probably default on its IMF debt.

The fund appears to have judged the former the least-bad option in terms of lost credibility. If so, it is wrong.

Although the details of the proposed bail-out have not been disclosed, Russian officials have trumpeted their victory in securing enough to cover their IMF repayments this year. Fund officials deny that anything firm has been agreed. However, they have said that the programme will aim at a 2 per cent primary surplus (before interest payments), not the 3.5 per cent the IMF wanted.

Backtracking here is of no great economic importance. The budget plans are largely fictitious. This was little more than shadow-boxing anyway. However, it does prove Yuri Maslyukov, first deputy prime minister for the economy, to have been right. To the IMF's annoyance, Mr Maslyukov has predicted that the fund would back down. He now has his sights set on writing down Soviet debt.

Providing Russia with just enough money to meet its IMF obligations this year represents little more than an accountant's sleight of hand. That the dollars will never leave Washington is a good thing. Previous IMF loans simply leaked out of Russia. However, it does mean that the world's champion of financial transparency is effectively rolling over loans that went bad following Russia's devaluation and domestic default.

Of course, from a political perspective, the middle of the war with the former Yugoslavia is a poor time to refuse Russia's demands for more cash. A holding operation until next year's scheduled presidential elections is sensible on these grounds. If the US, or any other government, wants to bail Russia out for political reasons, it should do so.

But this, emphatically, is not the IMF's job. Its credibility has already been severely strained. New loans to Russia effectively endorse the government's economic programme of treading-water. In making them, the fund risks its integrity.

Irrational rewards

With executive pay rising to $500m and more, Richard Waters considers whether such rewards can be justified

The era of the billion-dollar manager is nigh.

The days when the headlines were filled with salaries that ran merely into six figures, and bonuses that might sometimes make seven, are gone. After the US stock market's long climb, those who make it into the upper reaches of the corporate elite are truly those beyond most peoples' dreams of avarice.

And, with American management practices held up for emulation around the world – not least thanks to mergers between US and foreign companies – executives around the world may soon be following suit, say US compensation experts.

"It's like exporting typhoid fever," says Charles Elson, a corporate governance expert and professor at Stetson Law School. But even Mr Elson has been a party to executive pay inflation. As a director of Sunbeam, a struggling US household products company, he sits on a board that gave its former chairman, "Chainsaw" Al Dunlap, stock options which were worth over $75m at the beginning of last year. The value of those options has since evaporated, along with Sunbeam's fortunes. Sunbeam is now fighting Mr Dunlap over $5.25m in salary that he says he is still owed.

"It's not a virus, it's a vaccine," retorts Ira Kay, head of executive compensation at consultants Watson Wyatt, and one of the biggest proponents of US-style executive pay. He and other fans of stock-based compensation believe that if Japanese or German companies embraced American methods of compensation, they would deliver similar high returns for their shareholders.

While the rest of the world begins to debate the desirability of paying managers like rock stars, the rumblings from shareholder representatives in the US suggest that a political backlash is brewing.

The new super-elite includes people like Michael Eisner at Walt Disney, who exercised stock options worth $570m last year, and Sandy Weill at Citigroup, whose direct stock holdings, excluding options, are nudging close to $1bn.

The new executive upper-class embraces managers whose reputations have been built over many years, and those whose impact has been brief. Jack Welch, whose 18-year stint at the helm of General Electric have probably made him the world's most admired manager, is sitting on stock and options with a value of around $500m. But by the end of last year, Lou Gerstner had amassed almost as much wealth from his quick turn-around of International Business Machines.

Below these titans of industry, hundreds more American chief executives have accumulated impressive personal fortunes. An analysis of 200 big companies at the end of 1997 put the average chief executive's personal equity holdings at nearly $80m, not including the handful of extremely rich and the underpaid, according to Pearl Meyer, an executive pay consultancy. Since then, the stock market has risen by nearly 35 per cent.

Some of these managers, no doubt, have performed exceptionally well. But most, by definition, are average. It is the times they live in, rather than their individual actions,that are truly exceptional.

Even Alan Greenspan last month allowed himself the luxury of a side-swipe over the sky-high levels of executive pay. "I find a lot of what is being paid to individual CEOs not directed to the value that they are producing for their shareholders, who are paying the bill," the Federal Reserve chairman said, speaking before a congressional committee.

Disquiet over pay levels at the time of the 1992 presidential election campaign led to a change in the tax code to limit the deduction that companies can take for executive pay, except where compensation is performance-based. During the 1996 campaign, greedy chief executives were criticised at a time of widespread job insecurity among ordinary workers.

'It's like exporting typhoid fever'

The time may well be ripe for another populist reaction, say some corporate governance experts. Even though shareholders at large have done well in the bull market, the wealth that has accrued to chief executives "is not such a small piece of the cake any more," says Patrick McGurn of Institutional Shareholder Services, a body which represents several hundred US investment institutions.

The implicit social contract that makes such big executive pay awards possible will hold as long as employees and shareholders at large feel they are getting their fair share of the goodies, says Mr Kay at Watson Wyatt. Others believethe link between pay and performance that once conveyed social legitimacy on big pay awards has already been broken.

The defenders of giant stock-based pay awards generally use three arguments to support their case: such arrangements are said to be motivational, they reflect the need to pay a market rate, and they are validated by the big gains that other shareholders make.

The first of these arguments rests, in part, on a belief that there is a direct link between an individual executive's actions and the size of the potential reward.

Most stock options, though, are granted with an exercise price which has been set at the current market price. There has also been a trend to handing out so-called "mega-grants" of options, often running into the millions. Taken together, these can leave mediocre managers with massive profits, even if their companies' share prices rise only modestly.

In such cases the link between pay and performance is weak. But there is no link whatsoever when it comes to dismissing executives with "golden parachutes". When chief executives fail to perform, they increasingly leave with large hand-outs. According to Mr Greenspan, shareholders are wasting their money with them.

Another abuse that shareholders frequently grumble about is the tendency of many companies to reduce the exercise price of options if their shares prices fall – a practice that allows executives to benefit even when other shareholders suffer.

'It's not a virus, it's a vaccine'

The second argument in favour of high pay – that it represents the market rate – has also become controversial given the speed with which pay levels have escalated. Critics claim, in fact, that there are no real market rates.

The compensation committees that set executive pay levels at most companies generally justify their decisions by reference to practices at other, comparable companies. This may have the effect of driving up pay levels across the board: most set pay above the norm for their industry, on the grounds that their own executives are a cut above the rest. "No one wants their chief executive to be average," says Prof Elson. "That means there's a natural ratcheting-up effect" in executive pay. Comparisons are invariably used as reasons to raise pay, never to cut it.

If other shareholders benefit when a company's stock price rises, meanwhile, it may at least lessen the pain of high pay. However, it does not change the fact that the stock issued to managers has a real cost, and that other shareholders are footing the bill.

American companies have been allowed to downplay this by an accounting rule that permits the cost of stock options to be excluded from their profit and loss accounts. However, investors like Warren Buffett have pointed out recently that this should not be allowed to disguise what is really going on. Writing in the latest annual report fo Berkshire Hathaway, his investment company, Mr Buffett pointed out that stock options are a form of compensation, compensation is a cost to the company, and any investor who wants to understand a company's true profits should deduct all costs first.

If concerns like these are beginning to ripple through the US, where high chief executive pay has a long history, then they are also likely spread like wildfire in countries where pay levels have traditionally been lower.

Mr Elson and other US corporate governance experts believe the rash of takeovers of US companies by Europeans makes the spread of American pay practices inevitable. Takeovers like those of Chrysler by Daimler Benz, and of Airtouch by Vodafone, have been accompanied by promises from the new European bosses to preserve US-style pay. But the question is whether US methods will eventually come to affect the new corporate parents themselves. To acquire a company and then pay its executives more than you pay your own employees – or yourself – "is a tough thing to do, from an ego point of view," Mr Elson says.

Elsewhere, management consultants are championing US-style stock options as a vital part of the revolution that swept over American boardrooms in the 1980s. If the rest of the world wants to copy America's success, it will have to copy its pay practices, too.

That is not an easy message to swallow. In Britain, the corporate culture may make it more open to American-sized pay awards than other European countries, but that has not made the arrival of such arrangements any less controversial. "There appears to be a movement in the UK to put a cap on the returns on human capital," complains Mr Kay. "There aren't any caps on the returns on financial capital."

In Germany, big pay awards will take even longer to come, predicts "Bud" Crystal, an outspoken critic of current pay practices. The presence of trades union representatives on supervisory boards will act as a break on such arrangements, he says.

So perhaps social and institutional resistance in Europe will slow the spread of big pay awards from across the Atlantic. But in the global company of the future, it will be hard to maintain strong national preferences in corporate pay indefinitely.

OBSERVER

Bad feeling in the frozen wastes

Arco's assets in Alaska make BP's planned takeover of its fellow oil company look good. But when it comes to Russia, things might be a little different.

For BP boss Sir John Browne, the world's biggest country is best left unmentioned. Last month his firm wrote down a third of its $571m investment in Sidanco, a Russian oil company that's definitely seen better times.

And, unnervingly, Arco's got a Moscow connection too – an 8 per cent stake in Lukoil, Russia's biggest oil firm.

What's more, the Lukoil link might just put Browne face to face again with Vagit Alekperov, Russia's top oil man.

Observer hears they share similar traits and don't score high on suffering fools gladly. But surely that can't have been the reason for an angry encounter between the two a few years ago.

Anyway, now they're on their way to becoming partners, everything's going to be sweetness and light. Isn't it?

St James

Jimmy Carter's widely revered as a globe trotting saint welcomed for his good works for peace and the poor. But not, Observer is afraid, in Taiwan.

Twenty years ago, the one-time peanut farmer and US president dealt the island a blow by recognising Communist Beijing as the real Chinese government – despite decades of alliance with Taipei.

This week the big-toothed one finally made his way to the island he affronted and was met with cries of "Traitor, go home!"

But Taiwan's bosses gave him a warm welcome, with President Lee Teng-hui – a fellow Christian – keen to take lessons from Jim in how to live life once the pension starts coming in. And some locals are even coming round to the view that Carter did the right thing. After all, Taipei's bosses were keen to bolster their authority once they got the cold shoulder from Washington – and eventually went ahead with democratic reform.

So maybe miracles still happen. And one day even Taiwan might join the church of Carter.

Bank on it

Nato might be bombing, but Belgrade's bankers haven't let that put them off. They're still pushing plans for a $3bn bank to help rebuild their region once the alarums of war have quietened down.

Their brainchild already has a name – the Balkan Development Bank, a location (Athens) and a financing plan. But some of its cheerleaders might be a problem.

The plans were unveiled by Zoran Cicak, an adviser to Beobanka, Yugoslavia's biggest bank, who admits that his government's unpopularity doesn't augur too well for his project. After all, Belgrade, which isn't a member of the European Bank for Reconstruction and Development, would be a big winner if the new bank got off the ground. Cicak reckons that if Israel, Egypt, Jordan and Palestine can set up a Middle East Development Bank together, his project may also succeed. And by the time his bank's up and running – which will take at least five years – "the situation will have improved". After all, things could hardly get worse.

Leaving time

Some countries specialise in gold-mining; others in high-tech. Brazil's making a habit of collecting disgraced Paraguayan politicians.

The South American giant is generous to its tiny neighbour's bosses when twilight beckons – which helps Paraguay get rid of them.

So Raúl Cubas, Paraguay's president – undone this month by impeachment and the mysterious assassination of his number two – was always likely to end up in a Brazilian beach paradise.

Cubas, a fluent Portuguese speaker, is settling into his apartment at the resort of Camboriú. If he wants any tips on how to play things low key, he could do worse than get them from Alfredo Stroessner, the strong-man who ran Paraguay for 35 years before vegetating in Brasília during the past decade.

Still, there's a limit to everything – even Brazil's appetite for Paraguayan soiled goods.

The country's heaving a sigh of relief that Lino Oviedo, the explosive ex-general who taught Cubas everything he knows, is seeking asylum in Argentina.

Plastic fantastic

Chinese whispers have been circulating about banking behemoth Standard Chartered. The London-based international bank has just put out its annual report with a pretty picture of a credit card adorning the front.

Only problem is, just before publication, Standard's executives were informed that some of the numbers on the flexible friend had a dubious significance in Chinese-speaking countries – where the bank does a lot of business. So, "44" for example, according to Chinese superstition, means "double death".

The offending digits were whipped out to be replaced with "5488" – to signify "life beating death and continuous prosperity". Plastic's never felt so good.

The Financial Times

100 years ago

Teaching in Austro-Hungary
The first step in the direction of establishing a system of commercial education in Austro-Hungary was in 1856, when commercial academies were founded in Prague and Vienna. In the earlier days state interference was practically limited to a general supervision of the establishments, but in 1888 a vigorous policy was adopted by the Minister of Education. An Office of Inspection was established, which ensured that all schools throughout the Monarchy were organised on the same lines.

50 years ago

Jet Airliner
New details were released yesterday of the De Havilland 106 jet-powered airliner, which is expected to be in operation on the Atlantic air route in 1952. Four Ghost jet engines will give this airliner a speed approaching 500 m.p.h., and it will fly above the weather at 40,000 ft., which will be its most economical operating height. Thirty-six passengers will be accommodated in fully-reclining chairs. Design of the airliner will be very advanced, with low swept-back wings.

FINANCIAL TIMES
WEDNESDAY MARCH 31 1999

THE LEX COLUMN

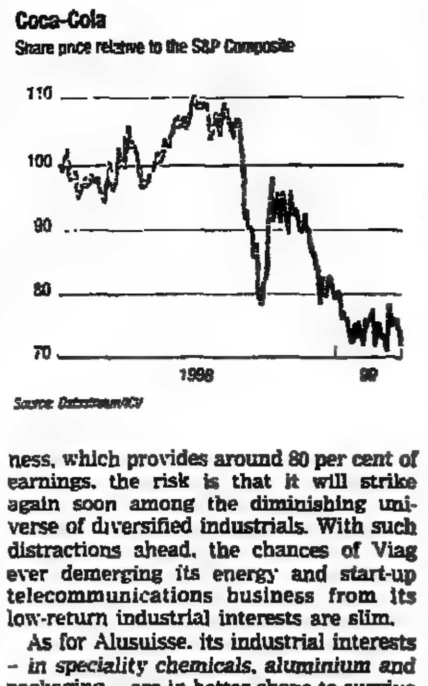
Out of work ethic

Are Japanese companies finally biting the bullet and restructuring? If the country's unemployment figures are anything to go by, the answer is yes. Last month, the total number out of work rose above 3m for the first time. At 4.6 per cent, the jobless rate is now higher than in the US. Frighteningly for Japanese workers, there seems no respite. Unemployment is growing at 27 per cent year on year – almost back to last August's peak.

One explanation is that companies are, in extremis, turning on their legions of "bubble hires" – workers taken on in the late 1980s when fear of labour shortages led to a recruitment spree. Restructuring plans are certainly getting crunchier. Between 1993 and 1996, the last period of mass-scale retrenchment, these generally involved shedding 5 per cent of the workforce over three to five years. Now they involve 10 per cent cuts in less than three years.

This is not entirely voluntary. One reason companies are getting tougher is because Japanese banks are finally putting pressure on problem borrowers. Long-term, of course, such restructuring is positive for equities. But in the near future the risks remain on the downside. Fear of unemployment is encouraging consumers to save. Consumer confidence, and consumption, is slumping. The recent bounce in Japanese stocks was built mainly on restructuring hopes. Without any sign of an economic recovery, it is unlikely to be sustained.

Coca-Cola
Share price relative to the S&P Composite



Source: Datastream/ICV

Viag/Alusuisse Lonza

Watching Viag and Alusuisse Lonza extricate themselves from their cross-border conglomerate pile-up has been excruciating. Obviously there is relief that a misguided deal has finally been abandoned. But that is overshadowed by pessimism over what lies ahead. It is not as if either company has admitted the folly of crashing together two hulking industrial groups. Far from it. Although Viag did not relish the prospect of Martin Ebner, the new Alusuisse chairman, shaking up the merged group, the deal collapsed over price, not principle.

The German company remains wedded to its "balanced conglomerate" vision. Since it has failed in this first attempt to diversify away from its core energy business, which provides around 80 per cent of earnings, the risk is that it will strike again soon among the diminishing universe of diversified industrials. With such distractions ahead, the chances of Viag ever demerging its energy and start-up telecommunications business from its low-return industrial interests are slim.

As for Alusuisse, its industrial interests – in speciality chemicals, aluminium and packaging – are in better shape to survive on their own than Viag's. That said, now that the merger between Ciba and Clariant has also been abandoned, there must be a chance at least that one or other will approach Alusuisse for another stab at creating a Swiss speciality chemicals powerhouse.

Coca-Cola

Worms rather than fizz have popped out of the Coke can of late. This is the third time in six months that Coca-Cola has warned of weak sales. Unit case volumes, the best measure of underlying growth, have been deteriorating for a year. In the first half of 1998 they grew at 9-10 per cent; in the second six months they still managed 3 per cent; now Coke expects them to fall 1-2 per cent in this year's first quarter – the first decline in recent memory.

To avoid boring already disappointed investors, the soft drinks group is finding new sources of blame; yesterday it alighted on the Balkan conflict, which is disrupting business in eastern Europe. The sombre reality is that Coke's biggest long-term asset, its global reach, is proving a short-term weakness. Asia is only now bottoming out, Latin America has been hit hard by recession and Europe is sluggish. Even US volumes have slowed, due to recent price increases.

Coke will bounce back, as quarterly comparisons ease in the second half. The addition of Orangina in France and Cadbury's international drinks brands should boost volumes, though both acquisitions still await regulatory approval. Meanwhile, the group and its bottlers are bringing forward some marketing spend. But the cost is likely to be a second year of flat earnings, which is hard to square with a price/earnings ratio of nearly 45 times. The shares continue to offer poor value.

Drinks venture

Diageo mark II it is not. But then, with the two smaller links – Highland Distillers and Rémy Cointreau – in this drinks distribution chain virtually bid proof, a joint venture is the next best way to pool resources. Jim Beam is the one putting in cash to gain much better access to Europe. The other two are gratefully taking on their own, particularly Rémy. Its crisis management over the past year has seen debts cut by a quarter. This deal should help it restore interest cover to two times in 1999-2000.

Part of Rémy's problem was that it had too few products to put through an expensive international sales network. Now that network is being infused with bourbons and premium wines. It should also be better focused as a stand-alone unit. But profit levels will depend on increasing sales, as the scope for cost cutting looks limited. Of the 50 countries covered, only three have overlapping sales forces. And the change is incremental since Rémy and Highland Distillers were already linked.

The network remains thirsty for more complementary product. This means it will pay off handsomely only if others follow Highland in focusing on brands rather than proprietary distribution. But the financial strength of several family-controlled players suggests a cull of parallel sales networks is some way off. The industry is still waiting for the next Diageo-style rationalisation exercise.

US-based textiles groups face threat from Mexico

By Henry Tricks and Richard Lapper in Ciudad Victoria, Tamaulipas

US-based textile manufacturers face increased pressure from their leading international competitors building integrated production plants in Mexico to take advantage of low labour costs and the market access provided by the North American Free Trade Agreement.

Current plans include the expansion of a denim factory specifically to supply blue jeans to the US, and a new textiles complex on the Tamaulipas coast.

The aim is to undercut American producers such as Levi Strauss, the brand leader, which recently closed half its US factories and shed 5,900 jobs partly because of low-cost competition from abroad.

Government officials say they have investment pledges from US and Asian companies to develop a fully integrated textile export industry in the north of the country, using locally produced cotton and polyesters to set up a production chain that runs from fabric to finished product. Overall, more than $600m of investment is planned, and Mexico has dislodged China as the leading supplier of textiles to the US.

Labour-intensive "cut-and-sew" garment production plants have been a magnet for the low-wage workforce.

The developments are the latest indication that the buoyant *maquiladora* sector, which imports raw materials duty-free and re-exports manufactured products to the US, is laying down roots and helping turn northern Mexico into a more sophisticated export platform.

"The main reason is Nafta," said Peter Wan, manager at Nien Hsing International, a Taiwanese textile company that is spending $189m on its denim and jeans plant at Ciudad Victoria, in Mexico's north-eastern state of Tamaulipas. "No matter where we produce fabric our final market is the US. That's why we chose Mexico."

He said the latest plans could herald further investments in the sector. "In the future more of them [textile companies] will come here," he said.

The new plants will also seek to take advantage of Mexico's proximity to the US to respond rapidly to new fashions.

Rivals based in Asia take weeks to send garments by ship. Mr Wan says overall production costs are 10 to 20 per cent lower than those of rivals north of the border, and says his plant is already producing 1.1m yards of denim a month.

It aims eventually to reach 4.4m yards, which, he said, would make it one of the top three denim producers in the world.

The state government says it has also signed a contract with US fabric producers to set up a $400m textile complex on the Tamaulipas coast, using nylons and polyesters from nearby petrochemical companies and Mexican-grown cotton to produce fabric.

The two projects, plus two planned Taiwanese and Korean plants worth $60m, will create 15,000 manufacturing jobs.

Japanese unemployment rate reaches new high of 4.6%

By Paul Abrahams in Tokyo

Japan's jobless rate jumped to a new high of 4.6 per cent in February, and the government admitted for the first time yesterday that corporate restructuring would continue to drive the figure higher.

The rate had remained at 4.4 per cent for the previous three months.

Japan's jobless rate now exceeds the US rate by 0.2 percentage points, and analysts say the actual situation is far worse than the headline figure suggests. For the first time, more than 3m Japanese were out of work.

Akitaka Saiki, the prime minister's foreign press secretary, said unemployment was likely to rise in coming months. "There will be more lay-offs," he said. That admission and other disappointing economic data reinforced doubts about the government's argument that Japan's economy was beginning to recover.

In recent weeks, many companies have announced big restructuring packages, including early retirement programmes and a freeze on hiring new graduates. Analysts warned that unemployment could jump above 5 per cent as early as April, when many groups traditionally take on new recruits.

Recent research by Nomura Research Institute suggested that if under-employed staff were made redundant, the unemployment rate in Japan would be about 15 per cent.

Goldman Sachs, the US broker, warned that the situation was worse than it looked, noting that the number of people employed fell by a year-on-year 770,000, or 1.2 per cent, in February to 63.34m - the biggest fall since 1975.

"Anybody who thinks that corporate restructuring will take just two quarters and then there'll be a recovery is likely to be deluding themselves," warned Brian Rose, economist at Warburg Dillon Read in Tokyo. "There's a real danger that large-scale restructuring could trigger the next phase of the recession."

The drop in employment, together with falling take-home pay – hit by reduced bonuses and overtime – continues to hold back consumer spending. Data released yesterday showed a 4.1 per cent contraction in consumption during February by households with at least one worker. The propensity-to-consume index dropped to 67.8 per cent, its lowest level since 1970.

Industrial output remains depressed and capital spending by companies continues to fall. Data released earlier this week showed industrial output during February fell 0.6 per cent month on month, well below forecasts.

Taichi Sakaiya, director general of the Economic Planning Agency, conceded yesterday that the economy was in a "more severe than expected condition", adding that it could deteriorate further in the near term.

Most private forecasters believe the economy will contract this year. A poll of 13 financial institutions published this week by Reuters, the news agency, indicated the economy would contract 2.4 per cent in the year to March 31, and a further 0.8 per cent next financial year.

End of jobs-for-life, Page 17
Lex, Page 18

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British prime minister Tony Blair, left, with Irish premier Bertie Ahern at Stormont after talks on the deadlock in Northern Ireland. Page 10 AP

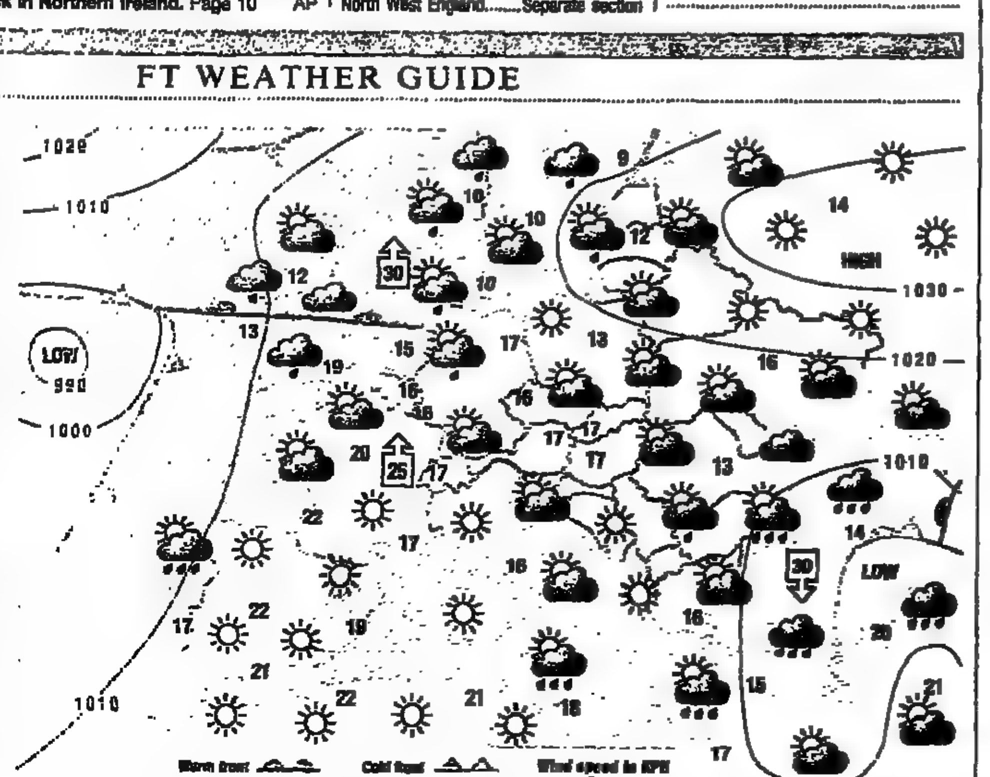
FT WEATHER GUIDE

Europe today

Most of Spain will be sunny, but north-west Spain and Portugal will have afternoon showers. The central and eastern Mediterranean will have sunshine, but there will be showers across Greece and perhaps southern Italy. The Balkans will have showers in the east, but sunny spells towards the Adriatic coast. Most of central and northern Europe will be warm and fine with sunshine, but showers are possible in the Low Countries, Denmark, southern Sweden and Finland.

Five-day forecast

Most of Europe will be fine, warm and sunny over the next few days. However, an Atlantic cold front will bring the threat of heavy showers to Portugal, western Spain, western France and south-western parts of the British Isles. It will also be cooler and more changeable in the extreme east and south-east of Europe.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	28
Accra	Thunder	33
Algiers	Sun	22
Amsterdam	Cloudy	15
Athens	Cloudy	16
Atlanta	Thunder	18
B. Aires	Fair	21
B.ham	Shower	17
Bangkok	Cloudy	36
Barcelona	Sun	17
Beijing	Cloudy	16
Belfast	Rain	13
Belgrade	Thunder	17
Berlin	Fair	17
Bermuda	Fair	20
Bogota	Shower	19
Bombay	Sun	34
Brussels	Fair	16
Budapest	Fair	17
C.hagen	Cloudy	10
Cairo	Sun	[illegible]
Caracas	Cloudy	30
Cardiff	Shower	15
Casablanca	Fair	22
Chicago	Rain	19
Cologne	Cloudy	17
Dakar	Sun	23
Dallas	Fair	25
Delhi	Sun	34
Dubai	Sun	28
Dublin	Rain	13
Dubrovnik	Sun	16
Edinburgh	Shower	13
Faro	Shower	19
Frankfurt	Fair	17
Geneva	[illegible]	17
Gibraltar	Fair	20
Glasgow	Drzzl	12
Hamburg	Shower	14
Helsinki	Shower	9
Hong Kong	Cloudy	23
Honolulu	Sun	28
Istanbul	Rain	10
Jakarta	Thunder	31
Jersey	Fair	15
Johannesburg	Fair	21
Karachi	Sun	33
Kuwait	Sun	28
L. Angeles	Shower	18
Las Palmas	Fair	22
Lima	Cloudy	28
Lisbon	Shower	17
London	Cloudy	19
Lux.bourg	Fair	17
Lyon	Sun	19
Madeira	Shower	19
Madrid	Sun	22
Majorca	Sun	19
Malta	Thunder	18
Manchester	Rain	18
Manila	Thunder	[illegible]
Melbourne	Shower	18
Mexico City	Sun	28
Miami	Sun	27
Milan	Sun	18
Montreal	Fair	7
Moscow	Sun	14
Munich	Fair	15
Nairobi	Thunder	27
Naples	Fair	16
Nassau	Sun	27
New York	Sun	21
Nice	Fair	17
Nicosia	Fair	20
Oslo	Fair	10
Paris	Fair	20
Perth	Sun	24
Prague	Fair	16
Rangoon	Sun	34
Reykjavik	Sun	-2
Rio	Fair	30
Rome	Fair	16
S. Frsco	Shower	14
Seoul	Fair	18
Singapore	Thunder	[illegible]
Stockholm	Fair	10
Strasbourg	Fair	18
Sydney	Fair	24
Tangier	Fair	21
Tel Aviv	Fair	21
Tokyo	Fair	13
Toronto	Sun	20
Vancouver	Fair	10
Venice	Sun	17
Vienna	Fair	17
Warsaw	Fair	13
Washington	Sun	25
Wellington	Fair	19
Winnipeg	Shower	7
Zurich	Fair	16

INSIDE

ABN Amro stands by its Real deal
Last November ABN Amro, the Netherlands based bank, paid $2.1bn (£2bn) to buy Banco Real, Brazil's largest bank. Two months later the Brazilian currency crashed, losing 40 per cent of its value. The deal looked like an expensive blunder. Yet Floris Deckers, the Dutch bank's chief executive for Latin America and the Caribbean, remains calm. "We did not buy this bank on a whim," he says. Page 22

Cameroon logging 'unsustainable'

Cameroon is now the largest producer of logs in Africa, and there is little forest that has not been logged. The region's tropical forest is the second largest in the world "but it is disappearing in front of our eyes", says Pierre de Maret, director of a European Community-funded project on tropical forest people. He believes that Cameroon's forest is being exploited at a faster rate than is sustainable. Page 32

Correction: Mr Gregory Bryce
On March 22 we reported that Mr Greg Bryce was one of five traders who had been under investigation by the London International Financial Futures and Options Exchange and of whom it was expected that they would be found guilty of front running. We now understand that Mr Bryce was never under investigation by Liffe and offer him our sincere apologies for any embarrassment caused by the error.

War-battered euro begins to recover
The debate continued to rage about the relative importance of Kosovo and euro-zone economic weakness on recent falls in the euro as the battered currency recovered above the $1.07 level by the end of European trading. Page 31

Prepare for the 24-hour society
Leon Kreitzman's recent book, *The 24-hour Society*, argues that 24-hour living is inevitable. Manufacturing companies cannot ignore the economic sense of working round the clock, decreasing downtime on machinery. But should we welcome such developments? Page 26

MRG wins big cobalt sales contract
MRG Cobalt Sales, the London based metals trader, has become exclusive cobalt marketing agent for Gecamines, the Democratic Republic of Congo's state-owned mining group. Page 30

New Zealand stock market stalls
The hunt to find the money for three sought-after issues absorbing about NZ$3.5bn has stalled the New Zealand stock market, diverting attention from an improving economy and better company earnings. Page 42

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MARKET STATISTICS

Three further Japanese groups fail

By Gillian Tett in Tokyo

Financial and real estate companies have debts of $10bn

The shake-out in Japan's financial and real estate sectors gathered pace yesterday after three companies filed for bankruptcy with collective liabilities of more than Y1,200bn ($10bn).

The bankruptcies – of Apollo Leasing, Asahi Urban Development and Fuji Building – highlight the scale of problems still dogging Japan's real estate and finance sector, as the country tries to implement banking reforms.

Last year the total value of liabilities from bankruptcies in Japan reached Y14,380bn. Analysts suspect that more bankruptcies could emerge.

Apollo Leasing, one of the country's large non-bank financial groups, decided at a directors' meeting that it would liquidate with around Y500bn of debts after failing to persuade creditors to restructure its loans.

Asahi Urban Development, a real estate affiliate of the nationalised Nippon Credit Bank, also yesterday told the Tokyo district courts it would liquidate itself. The group has Y557.6bn of liabilities, according to Teikoku Databank, the bankruptcy research group.

Fuji Building, a medium sized real estate broker, applied for bankruptcy with debt of Y200bn, according to Tokyo Shoko research, another research group.

The government is encouraging banks to clean up their balance sheets in exchange for Y7,450bn of public funds to boost their capital bases. This injection of money is allowing the banks to take decisions about the multitude of insolvent borrowers they have been supporting in recent years. Some are ridding themselves of bad loans by implementing debt forgiveness programmes. Others are cutting off their weakest borrowers altogether. Sakura Bank, a lender to Apollo Leasing, admitted it had been asked last year to forgive about 90 per cent of its Y79.1bn exposure to the leasing group. It refused and admitted it did not expect to recover all of its loans to Apollo.

Other key lenders to Apollo Leasing include groups such as NCB, nationalised last December because of its massive exposure to real estate groups. Hokkaido Takushoku, another large bank which failed in 1997, had also extended large loans to Apollo.

Apollo Leasing was established in 1972 in Sendai, initially as a machine leasing group. However, during the 1980s real estate bubble it expanded rapidly away from its core business into real estate collateral financing. It was badly hit when the bubble burst.

Lex, Page 18
Tokai forgives Y220bn, Page 24

Endesa wins 18-month fight to control Enersis

By Mark Mulligan in Santiago

Endesa, the Spanish utilities group, won an 18-month battle to take control of Latin America's largest electricity holding company yesterday when shareholders in Enersis of Chile voted overwhelmingly to change the group's shareholding rules.

More than 84 per cent of shareholders voted to lift limits for a single stake from 33 per cent to 65 per cent, clearing the way for Endesa to double its 32 per cent stake in the Chilean group through a $1.45bn offer launched earlier this year.

Alfredo Llorente, chief executive of Endesa's international operations, said the Spanish group now had the mandate to create the region's largest integrated generation and distribution group. "This is the end of a long battle in which we have been asking to carry forward our plans for Enersis," he said.

The vote was seen as a triumph for Endesa. Its proposal to lift limits on shareholder concentration was rejected by less than 1 percentage point at an extraordinary meeting a month ago. Endesa executives were ready to pull out of Chile after the defeat, which they saw as the final blow in the long fight for control which started with the controversial $1.5bn acquisition of regional Chilean distributors in 1997.

However a second meeting was called by two of the eight pension funds which together hold about 30 per cent of the equity in Enersis. Yesterday Endesa won the support of most institutional investors plus US holders of ADRs, which hold 19 per cent of the equity.

José Antonio Guzmán, Enersis president, was expected to resign last night after a meeting of the Enersis board, which includes three Endesa representatives. He will be the second casualty of the Spanish bid after the resignation of Jose Jurasszeck, former chief executive of Enersis, in 1997 amid charges of improper share dealing. "It's obvious [Guzmán] has to go," said the head of a US investment bank in Santiago.

Further changes to the board are expected once the Spanish group completes its 320 peso a share offer to Enersis investors.

Investor focus is now likely to switch to Endesa Chile, the region's largest listed electricity generator and the subject of a $2.1bn offer for 51 per cent control by Duke Energy of the US. The group, which has no legal relationship with the Spanish Endesa but in which Enersis holds 26 per cent, will vote on April 6 to lift limits on shareholder concentration.

Mr Llorente reaffirmed Endesa Spain's commitment to supporting the statute changes, but would not be drawn on talk that the Spanish group will launch a counter-offer to Duke's bid.


Hugo Boss chief Werner Baldessarini: the German clothes maker has predicted a 9 per cent sales rise this year. Report, Page 21 Jason Orton

ICI likely to retain minority stake in disposals

By William Lewis in New York and Virginia Marsh in London

Imperial Chemical Industries of the UK is expected to retain a minority stake in the businesses it is planning to sell to Huntsman of the US.

ICI and the large US chemicals group are close to agreeing a deal under which Huntsman would acquire parts of ICI's materials and industrial chemicals division, including its tioxide business.

The transaction will value the ICI businesses at about $2.8bn, to be paid partly in cash, but the UK group is also planning to take a minority stake in a Huntsman-controlled company which will own the assets being sold.

ICI's shareholding in the business was yesterday described as "significantly, a minority stake" by one person close to the talks. ICI is eventually expected to sell the holding.

The deal is understood to cover ICI's petrochemicals operations based at Wilton on Teesside – specifically ICI's share of olefine production at an ethylene cracker and its aromatics business.

As well as tioxide, the deal is also expected to include polyurethanes, part of its materials division, previously considered a core area.

People close to both companies said last night that while a deal between the two was yet to be signed, it was very close to completion. Talks were continuing on ICI's acrylics business, the other materials unit.

The deal is not believed to cover the UK group's halochemicals operations, based in north-west England.

It has been trying to sell its loss-making industrial chemicals operations since 1997 when it decided to move into specialty chemicals, buying National Starch and fragrance and flavours operations from Unilever for £4.9bn ($7.94bn).

It has committed itself to reducing its debt to below £3.5bn this year, down from £4.2bn at end-1998, after suffering a series of setbacks on disposals in the past year. This included the blocking of the sale of tioxide to DuPont and NL Industries by US regulators. Yesterday, ICI's shares fell 1p to 560p.

Hyundai and Daewoo submit new shake-up plans

By John Burton in Seoul

South Korea's Hyundai and Daewoo will submit new restructuring plans to creditor banks today after the government criticised their use of doubtful accounting methods to reduce their debts.

Korea's top five conglomerates, or *chaebol*, had been ordered by the government to cut their ratio of debts to equity to 200 per cent by the end of the year.

The *chaebol* have resorted to revaluing assets to achieve the debt target, instead of selling assets, as the government intended, to reduce their sprawling industrial empires.

The economic significance of the *chaebol* has increased, as competing medium-sized *chaebol* have gone bankrupt, with creditors preferring to lend to the biggest groups.

Hyundai and Daewoo, which are considered to be the *chaebol* most resistant to corporate reforms, were ordered by creditor banks to submit new restructuring plans or face sanctions, including the suspension of new loans. Korea Exchange Bank is the main lender to Hyundai and Korea First Bank, which is being sold to a US financial consortium led by Newbridge Capital, is Daewoo's biggest creditor.

Hyundai's debt/equity ratio was 323 per cent at the end of 1998, while that for Daewoo was 306 per cent, with both relying on asset revaluations to cut their debts.

Although Hyundai has sold some of its US semiconductor units, it has expanded aggressively in the past year by taking over insolvent Kia Motors and Hanhwa Energy's oil refining business.

Hyundai, Korea's biggest *chaebol*, yesterday said it would sell assets and equity stakes to raise $6.3bn in foreign capital to pay off debts.

Third-ranked Daewoo has expanded recently by buying Ssangyong Motors, and is negotiating a takeover of Samsung Motors. Daewoo plans to sell half of Daewoo Telecom, its computer and car parts business, to Newbridge Capital for $300m and is hoping to persuade General Motors to take an equity stake in Daewoo Motors for $2bn.

But analysts are sceptical that Hyundai and Daewoo will be able to attract foreign investors if they insist on retaining management control.

The Fair Trade Commission warned it would conduct an investigation into transactions among *chaebol* subsidiaries next month to determine whether *chaebol* are subsidising failed businesses with profits from healthy units.

BARRY RILEY

Hopes rise on Nikkei

Another March 31, another Tokyo stock market boomlet. It offers a seasonal tonic for those devastated balance sheets. This time, however, the rise in the Nikkei Average ahead of the financial year-end has more than usually reflected foreign buying rather than domestic manipulation.

Perhaps, then, the strength of the market – up nearly 15 per cent in January-March so far, at 15,859 – will prove more sustainable into the second quarter than last year, when 16,527 on March 31 proved too ambitious a marker.

The first hurdle will be next Monday's Tankan business opinion survey. Do foreigners really know more about the value of Tokyo's stocks than the Japanese?

The latest Nikkei rally could be dismissed as just another benchmarking distortion, with global equity managers conscious that they "under-own" Japan compared with its 23 per cent of the EAFE Index at a time of rising stock prices in Tokyo.

Meanwhile, they are anxiously searching for somewhere to rotate to out of highly-priced Wall Street, at a time when Europe looks troubled.

The calculations have a basis of fundamentals, though, even if still risky. First, at about 11 per cent of the world market (having crept back above the UK's capitalisation) Tokyo seems undemandingly priced against the potential of the world's second-largest economy. On measures like price to sales there is value, even if profitability is unacceptably low.

The restructuring that might transform those profits is just beginning to happen. It could, of course, still prove to be an illusion, but global investors feel under pressure to take a view now on an ultimate Japanese turnround, or be left behind.

There is a tactical argument, too. Crossholdings of anything up to a third of the pool of large company equity are likely to be unwound eventually as part of the restructuring process. On the one hand that represents a daunting source of overhead supply, which is bound to make the stock market's progress erratic.

On the other, there could be a unique opportunity to take advantage of forced selling. The bulls say, indeed, that after today's balance sheet date the crossholding sales will slow and the market will strengthen further.

Such paradoxes proliferate in the debate about Japan's prospects. Any substantial industrial restructuring, for instance, would shift the cost of surplus labour from the corporate to the public sector, putting even further pressure on the public finances.

Soon, anyway, public debt will hit 140 per cent of GDP, higher than for any other industrial country since the second world war. According to Brian Reading, of Lombard Street Research, the London economics consultancy, Japan's true public sector deficit is at least 15 per cent of GDP.

Yet at the same time the private sector's financial surplus is extraordinarily high, so that it has been possible (until now, anyway) to finance the deficit very easily at tiny interest rates.

The same private sector caution has driven the balance of payments into massive and still rising surplus. If this cannot be recycled fast enough the yen will stay strong, at say 110 to the $, confounding the expectations of all the Americans who argue that Japan must monetise its fiscal deficit and thus push the yen/$ rate to 150.

Of course, both schools of thought might easily prove to be right at different times, bearing in mind that these levels represent no more than the yen's actual trading range of the past nine months. Meanwhile, the Nikkei remains well within its own 13,000-22,000 range established over the past seven years.

We should not expect any quick fixes in Japan. But the problems of the banking system are at last being tackled vigorously. Beyond that, corporate sector restructuring will take many years.

As always, the stock market will tend to run ahead of the real world, but last October's low of 12,948 now appears as a long-term turning point.

TAKEOVER ITALIAN REGULATOR DEMANDS EXPLANATION OVER GROUP'S €237.5M TELECOM ITALIA STOCK SELL-OFF

Consob grills Olivetti over sale of shares

By Paul Betts in Milan

Consob, Italy's stock market regulator, last night asked Olivetti for "urgent explanations" after the company disclosed it had sold 24.4m Telecom Italia common shares on Monday before raising its hostile takeover bid for the much larger privatised telecommunications group.

Olivetti said it had sold on Monday on the market €237.5m ($254.5m) worth of Telecom Italia ordinary shares at a price of €9.7328 each. After the market closed, it announced it was raising its hostile bid for Telecom Italia by 15 per cent from €10 to €11.5 a share.

Consob said Olivetti should have disclosed the sale involving 0.46 per cent of Telecom Italia's capital on Monday and not wait until yesterday.

The stock market watchdog had noted large movements in Telecom Italia shares on Monday and was about to open an investigation.

It asked Olivetti to explain urgently the "reasons and methods" of the sale which took many financial analysts by surprise.

The issue is expected to be a serious blow to Olivetti and its attempt to mount Europe's biggest post-war takeover.

Bankers said last night it risked damaging the credibility of the Olivetti bid, which has yet to be formally launched. The market is still awaiting the issue of a formal prospectus.

Roberto Colaninno, Olivetti chief executive, also said on Monday he would withdraw his sweetened €60.4bn bid if Telecom Italia shareholders approved the company's package of anti-takeover measures at a shareholders' meeting on April 10.

Franco Bernabe, Telecom Italia chief executive, rejected yesterday Olivetti's revised offer as inadequate and consisting of "paper". The Olivetti offer involves cash, bonds and equity.

Mr Bernabe also told investors during a US road show that Telecom Italia was grossly undervalued.

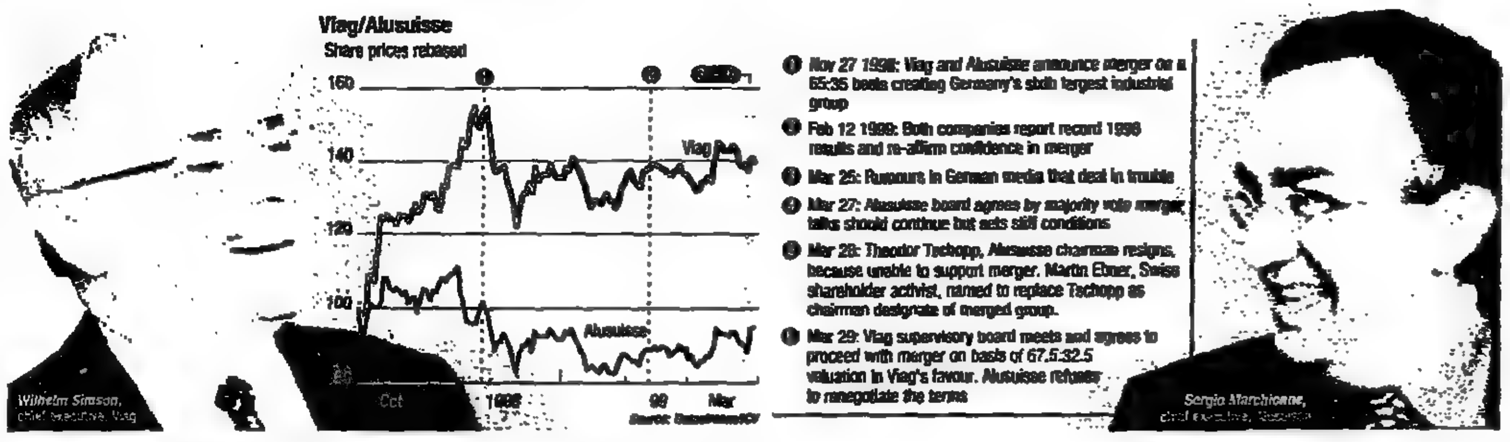
Analysts were last night at a loss to explain why Olivetti should have sold a large block of Telecom Italia shares at a price well below its revised offer.

Some bankers suggested Olivetti probably needed to raise cash quickly to pay the substantial commitment fees to the group of banks that have agreed to extend to the company a record loan totalling €22.5bn to finance its attempted takeover.

Olivetti had never disclosed it had acquired Telecom Italia shares, although the market had widely suspected it had. Under Italy's stock market regulations, a company must only officially disclose a stake of more 2 per cent.

The worm in the wedding cake for would-be partners

Swiss-German merger fell apart officially because of differing valuations of the companies, writes **William Hall**



Wilhelm Simson, chief executive, Viag

Sergio Marchionne, chief executive, Alusuisse

In the end, the collapse of one of Europe's biggest cross-border mergers foundered on the Hauptfachausschuss. At least that is the official version of why Switzerland's Alusuisse Lonza and Germany's Viag have been unable to consummate an ambitious merger which would have created Germany's sixth biggest industrial group.

The Hauptfachausschuss des Instituts der Wirtschaftsprüfer in Deutschland (HFA) is a body of auditors which acts as a legal referee for valuing German mergers.

Yesterday Viag and Alusuisse went out of their way to explain how the execution of their carefully crafted strategic deal had fallen apart because the HFA valuation did not support the 35/65 valuation split agreed at the time of last November's merger announcement.

Sergio Marchionne, an accountant and Alusuisse's chief executive, said both sides had done everything possible to try and overcome the unexpected problem.

Both parties had been advised by Goldman Sachs, one of the world's most prestigious investment banks. The US investment bank had also provided a fairness opinion for Alusuisse's shareholders, and J.P. Morgan had provided a similar opinion for Viag.

However, the valuations underpinning the fairness opinions differed radically from the HFA valuations. Alusuisse said that Viag was valued at DM52.67bn (€26.93bn, $25.13bn) under HFA principles, compared with a market value of DM27.3bn, and Alusuisse was valued at DM25.39bn, against market value of DM13.6bn. The need to involve the HFA highlights a big weakness in German accounting rules when it comes to trans-national mergers, Mr Marchionne said.

But it also points up a flaw in the structure of the proposed two-step deal that raises questions about the effectiveness of the SFr20m ($13m) spent on the investment banks and accountants advising Viag and Alusuisse.

The first step was the creation of Alpen, a holding company, to acquire Alusuisse. It did not need HFA approval. However, it had to become involved in the second step involving the amalgamation of Viag into Alpen. This was necessary to get rid of potentially troublesome minority shareholders.

Viag had to get HFA approval of its valuation. It is a requirement under German corporate law, and if members of Viag's supervisory board ignored the HFA's ruling they would be personally liable.

One of the big problems was that there was a substantial difference between Swiss and German entities in the calculation of distributed profits of each entity. The amount of Alusuisse's profits taken into account under HFA rules was 52.5 per cent and in Viag's case was 65 per cent. "However much we twisted, the HFA process would not reconcile the difficulties in the after-tax proceeds," said Mr Marchionne.

By then it was too late to consider scrapping the second step, since the existence of a differing HFA valuation would be a built-in incentive for people not to tender their shares, says Mr Marchionne.

Nevertheless, the HFA process had not thrown up any insurmountable problems when Viag and Alusuisse did a dry run simulation prior to last November's merger announcement. It had been carried out by KPMG, accountants to both companies, and reviewed by German accountants BDO.

However, the second time round proved more difficult. BDO, jointly appointed by both companies, carried out the HFA review and was supervised by Warth & Klein, a Dusseldorf auditor. The result was that the HFA valuation changed from the original 35:65 to 32.5:67.5. Viag's board had no choice but to accept the new valuation, putting the onus on Alusuisse to accept a lower valuation.

Reducing the Alusuisse share by two-and-a-half percentage points does not seem a terribly large amount, given the strategic value of the combination. However, the collapse of the deal means Martin Ebner, Switzerland's best-known shareholder activist, and Alusuisse's chairman-in-waiting, can concentrate on doing the deals for which he is famed.

He and his long-time business ally Christoph Blocher now control close to 30 per cent of Alusuisse's equity and will make up half of the slimmed-down board.

BCI and UniCredito draw closer to a merger

By Paul Betts in Milan

A merger between Milan's two largest banking groups, UniCredito Italiano and Banca Commerciale Italiana (BCI), yesterday appeared to be moving closer amid signs that Mediobanca, the secretive Milan investment bank, and Assicurazioni Generali, the country's leading insurer, were not considering mounting a counter bid for BCI.

Antoine Bernheim, Generali's chairman and Mediobanca's deputy chairman, yesterday said Generali's board had taken no decisions on any "extraordinary operations".

Generali, 12 per cent owned by Mediobanca, was widely considered by financial analysts as the Milan investment bank's main vehicle to challenge UniCredito's bid to merge with BCI through an exchange of shares.

The proposed UniCredito-BCI merger was further boosted by a landmark decision by Mediobanca's own syndicate of controlling shareholders. The members of the syndicate unanimously agreed to consider in the next few weeks a change in the rules governing the bank's shareholders pact as well as new corporate governance rules to ensure a greater affinity between the views of core shareholders and management decisions.

In the past, core shareholders tended to rubber-stamp decisions and strategies adopted by Mediobanca and Enrico Cuccia, its all-powerful 92-year old honorary chairman.

The Mediobanca shareholders' decision is expected to undermine further the position of Vincenzo Maranghi, the bank's chief executive and for years the protege of Mr Cuccia. Mr Maranghi's management of the bank has come under increasing criticism and his position is now under threat.

Marco Tronchetti Provera, chairman of the Pirelli tyre and cables group as well as a Mediobanca board member, is understood to have led the move to change Mediobanca's corporate governance rules. He was supported by Paolo Fresco, chairman of Fiat, who is also a member of Mediobanca's shareholders syndicate.

Lucio Rondelli, UniCredito's chairman and another Mediobanca board member, also emphasised the need to change the rules in view of his bank's proposed merger with BCI since the combined banking group would become Mediobanca's single largest shareholder with 17.6 per cent of its capital. UniCredito and BCI each own 8.8 per cent stake in the investment bank.

Mr Rondelli argued the proposed merger with BCI would help reinforce Mediobanca's shareholding structure. He also told the investment bank's board that UniCredito was interested in seeing Mediobanca remain independent and that it was purely focused on merging with BCI to form a competitive new banking group with L500,000bn in total assets.

Eastern European problems produce losses at takeover target CME

Central European Media Enterprises, the pioneer of private commercial television in east Europe, suffered a net loss of $125m last year, **write Kevin Done in London and William Lewis in New York.** The group, which announced on Monday night that it would be taken over by SBS Broadcasting in an all-share transaction valuing the company at $615m, has accumulated losses arising chiefly from problems in Poland and Hungary.

The company said that while operating losses tripled to $34.7m, from $11.7m in 1997, net losses rose to $125.25m, on net turnover of $182m, from a net loss of $85m in 1997 and a net loss of $30m in 1996.

The takeover by SBS Broadcasting will create one of Europe's largest broadcasters with 18 television stations across the continent and 12 radio stations.

Pohjola and Suomi merger faces hold-up

By Nicholas George in Stockholm

The merger between Finnish insurers Pohjola and Suomi, which was set to create the country's largest life insurance group, looked set yesterday to be delayed or even cancelled following the resignation of Suomi's board of directors.

The board, all managers of Pohjola, resigned as they felt they did not have the trust of the supervisory board of Suomi, a mutual life insurer.

Pohjola bought the right to sell life insurance from Suomi in 1997 for its own life insurance unit.

Preparations have been underway since then for the transfer of Suomi's insurance portfolio to Pohjola Life.

As part of the merger Suomi was to sell its 25 per cent shareholding in Pohjola. The sale would have opened the way for Pohjola to participate in the larger process of insurance industry consolidation in the Nordic region.

Pohjola has said it will study whether to participate in the non-life insurance group to be formed by the merger of the non-life operations of Sweden's Skandia and Storebrand of Norway. However, this move is now seen as on hold.

Iiro Viinanen, Pohjola's chief executive and a member of the board who resigned, said it was difficult to say what would happen now but that the project would certainly be delayed.

"We had a target of the end of the year but that is not now possible," Mr Viinanen said.

He said the board members' position as managers in Pohjola had led to concerns that there would be a conflict of interest. "The trustees [of Suomi] did not trust that we would be fair in pricing and the terms of the transfer of the policies of Suomi to Pohjola Life as we were selling and buying," Mr Viinanen said.

He said any plans to become involved in the Skandia-Storebrand grouping would "perhaps have to wait a little more".

Following an extraordinary meeting of Suomi's representative assembly yesterday a new board was appointed.

The company said that preparations for the insurance portfolio transfer would continue, as would preparations of "other alternatives safeguarding policyholders' interests".

Alusuisse, Viag take solo paths

By Uta Harnischfeger in Munich and William Hall in Zurich

Viag, the German industrial conglomerate, and Alusuisse Lonza, the Swiss packaging to chemicals group, said yesterday they would press ahead with independent strategies despite the unexpected collapse of their DM40.9bn (€20.9bn, $22.4bn) merger.

Wilhelm Simson, Viag chairman, said the two had not separated with bitter feeling. Instead, the whole exercise had done Viag good, "since the due diligence process allowed us to get a great benchmarking".

Viag, which earns the bulk of its profits from electric power generation, would pursue its double-pillar strategy of industrial and service activities.

However, Sergio Marchionne, Alusuisse chief executive, said the original rationale for the merger – the need to establish critical mass in the group's core packaging, aluminium and chemical businesses – remained an unresolved issue. "The last thing I want to do is start talking to Viag again about reskinning a cat," he said. But he said Alusuisse would consider other deals to achieve its goal of becoming "best in class".

Alusuisse shares closed SFr23 lower at SFr1,632 yesterday. Simon Marshall-Lockyer of BT Alex Brown said Alusuisse might turn to Switzerland's speciality chemicals sector in its search for a partner.

The collapse of the proposed merger of Clariant and Ciba Specialty Chemicals meant that they might be open to a merger which would help give Alusuisse's Lonza chemicals business critical mass. Mr Marshall-Lockyer said Alusuisse's market capitalisation of about SFr10bn ($6.7bn) was not much different from that of the other two companies, allowing a merger of equals.

However, Viag and Alusuisse emphasised yesterday that Germany's rigid accountancy rules in valuing mergers had been the critical factor in killing the deal.

Mr Simson said the main difference between the initial valuation of Alusuisse and Viag at 35 per cent to 65 per cent respectively and the final valuation by the independent auditors, BDO, came about after the auditors valued the hidden reserves and industrial stakes of Viag's subsidiary, power company Bayernwerk.

COMPANIES & FINANCE: INTERNATIONAL

Fiat buys to strengthen its subsidiaries

By Paul Betts in Milan

Fiat, Italy's largest manufacturing group, yesterday announced two separate acquisitions to establish itself as the world leader in automated production systems for the automotive industry and to consolidate its control of Italy's Toro insurance company.

The Turin automotive group said it was acquiring Progressive Tools and Industries (Pico) of the US for $350m in cash and absorbing $280m of the US company's debt in a transaction involving a total of $630m.

The combination of Pico and Fiat's Comau subsidiary will create the world's biggest group in factory automation and production systems for the automobile industry, with combined sales of about $2bn this year.

The US deal follows a string of recent acquisitions by Comau to reinforce its leading position, including the acquisition of a controlling stake in Renault Automation and of another French group, Sciacky.

Fiat also plans to buy the minority interests it does not own in Comau ahead of a reorganisation of its industrial production systems.

Fiat will delist Comau from the Milan stock exchange as part of its strategy to simplify the structure of the group and its subsidiaries.

Fiat will be left with four companies listed on the stock exchange. These will be the parent company Fiat Spa, Magneti Marelli, its car components subsidiary, the Toro insurance company and the New Holland farm and earthmoving machinery group.

The move confirms Fiat's intention to expand in this sector of the automotive business, contradicting market rumours that the Italian group was considering a disposal of Comau.

Fiat is to launch an offer for all outstanding savings and privileged shares of Toro Assicurazioni in a move to consolidate its control of the insurer.

Through Toro, Fiat has successfully developed new financial and insurance services for its car customers. But through Toro, the Turin group is also a core shareholder in Banca di Roma, the large Rome bank now the target of a share exchange merger bid from San Paolo-IMI, the Turin bank in which the Fiat Agnelli family are also core shareholders.

Fiat is offering €9 for each Toro savings and privileged shares in a bid worth a total of $637m.

Fiat owns 60 per cent of Toro's common voting stock and 36 per cent of the insurance company's total capital. If all outstanding savings and privileged shares were tendered, Fiat would end up with 77 per cent of Toro's capital.

JAPAN FORCIBLY NATIONALISED GROUP ISSUES APOLOGY

LTCB shareholders to lose all investments

By Gillian Tett and Naoko Nakamae in Tokyo

Shareholders in Long-Term Credit Bank, the ailing Japanese group which was forcibly nationalised last year, will lose all their investments in the group, the Japanese government has announced.

The Financial Reconstruction Commission, the Japanese institution which is implementing banking reform, said the government had now bought all the shares of LTCB at zero. Earlier this decade, the shares were trading at about Y3,000.

LTCB yesterday apologised to former shareholders, saying: "We thank you for your long support for LTCB and we regret that events have turned out like this."

The decision means that LTCB's largest shareholders, such as Dai-Ichi Kangyo, Daiwa Bank, Dai-Ichi Mutual and Nippon Life, have incurred large losses as a result of the nationalisation.

The announcement could also add to the controversy over the impending sale of the bank's remaining healthy assets. The government is likely to face a delicate political task in deciding what price it will seek from any potential buyer.

Takashi Anzai, LTCB president, said that he hoped to reach an agreement to sell the bank before the end of April. Meanwhile, Goldman Sachs, the US investment bank which is organising the sale, has been offered a large financial incentive to conclude the deal by this date.

However, no Japanese bank has yet expressed a serious interest in LTCB's healthy assets, and senior Japanese officials have stated publicly that they would be prepared to accept a foreign purchaser.

Consequently, another option now being considered by Goldman Sachs would be to sell LTCB as a short-term financial investment, which a potential purchaser could later break up and resell.

This proposal has aroused strong interest among some US investment groups, but is regarded with deep unease by the Ministry of Finance. In particular, senior bureaucrats fear that Japanese politicians would strongly criticise any deal which appeared to leave foreign investors buying LTCB's healthy assets cheaply, after the government had used public funds to remove the bad loans.

The government is also due soon to sell Nippon Credit Bank, the second nationalised bank. NCB was to have appointed a bank to advise on the sale earlier this month, but this decision has been delayed.

Anglo American tidies up

By Victor Mallet in Johannesburg

Anglo American, the South African conglomerate that is moving its domicile and primary stock exchange listing from Johannesburg to London in May, yesterday announced further plans to tidy up its complicated corporate structure in two deals worth R8.3bn ($1.3bn).

Anglo is buying the shares it does not already own in its subsidiaries Anglo American Gold Investment (Amgold), with stakes in various gold and minerals groups, and Anglo American Investment Trust (Anamint), whose only asset is 38.9 per cent of De Beers, the Anglo diamond company. Amgold and Anamint will be delisted.

Share prices of the affected companies moved sharply in response to the news. Amgold rose 29 per cent or R67.20 to close at R295.60, and Anamint rose 17 per cent or R18.20 to R128. Anglo American, however, fell 7 per cent or R16 to R211.40.

Anglo is offering 140 of its shares for every 100 Amgold shares in a transaction worth R3.5bn, and is expected to end up with 53.7 per cent of AngloGold, its focused gold mining arm.

The purpose of the deal, Anglo said, was to increase its stake in AngloGold and "tidy up further the Anglo American Corporation group structure by eliminating an intermediate listed holding company whose market price has historically traded at a discount to the underlying value of its assets".

Anglo gave similar reasons for the R4.8bn Anamint deal. Anamint shareholders are being offered 59 Anglo shares – or an alternative of 56 De Beers-Centenary linked units and 29.5 Anglo shares – for every 100 Anamint ordinaries.

Anglo is one of several large South African groups seeking to become more attractive to international investors by moving to London and simplifying labyrinthine structures that developed under apartheid.

"They promised to deliver action on restructuring and this is now the 20th major transaction," said Ken Costa, vice-chairman of Warburg Dillon Read in London, which advises Anglo. "They are delivering the restructuring on a rapid timetable."

Hapoalim lifts income

By Avi Machlis in Tel Aviv

Bank Hapoalim, Israel's biggest bank, yesterday said a decline in doubtful debt provisions during 1998 helped it lift net income 3 per cent during 1998 despite an economic slowdown.

Net income climbed from $273.3m in 1997 to $282.5m in 1998. Top line profit from financing activities before doubtful debt provisions slipped 4 per cent from $977.6m to $939m over the same period. But provisions dropped 28 per cent from $186.7m to $136m.

"These are not growth rates that we have been used to in recent years," said Amiram Sivan, chief executive. "But we are definitely satisfied."

Mr Sivan said Israeli banks have continued growing despite a three year economic slowdown because the economy is not highly leveraged. Analysts say the ratio of credit to gross domestic product in Israel is only 75 per cent, compared with between 100 and 130 per cent in European economies. At Hapoalim, credit to the public grew 17 per cent last year to Shk120bn ($29.5bn).

Analysts also said Hapoalim's decline in doubtful debt provisions indicated it was well positioned to ride out the slowdown. "Their asset quality appears to be suffering less from the slowdown and last year's depreciation of the shekel versus the dollar than the other banks," said Micha Goldberg, banking analyst at Nessuah-Zannex, the Israeli partners of US Bancorp Piper Jaffray.

Hapoalim said it will issue Shk1bn in capital notes, or debt, on the domestic market during the second quarter to lift its capital adequacy ratio – currently at 8.74 per cent – above 9 per cent according to recent regulations by the Bank of Israel.

Last year was a transition for Bank Hapoalim, after the state sold a 43 per cent controlling stake to a group of investors headed by Ted Arison, the US-Israeli billionaire. Shlomo Nehama, Hapoalim chairman, said the Arison group plans to increase its stake – more than 45 per cent – even though it has declined two options for an additional 14 per cent because the option price was above the market price.

NEWS DIGEST

AUTOMOTIVE INDUSTRY

BMW cautious about global demand for cars

BMW yesterday gave a cautious outlook for 1999, mostly due to the expected falling global demand for cars and continued difficulties at its UK Rover unit. It said it hoped to reach at least the level of last year's sales and profit. In 1998 BMW posted DM63.13bn (€32.3bn, $34.6bn) in sales, up slightly from DM60.14bn in 1997, while net profit was down 28 per cent at DM903m from the year-earlier DM1.25bn, mostly due to falling sales of its Rover brands.

BMW's forecasts for 1999 assume yet another hefty loss at Rover. This is despite the fact that Rover's main restructuring charges in 1998 – when BMW spent about DM300m for personnel charges at Rover and about DM300m for the depreciation of Rover's fleet management and used cars – will not re-occur. In the first quarter alone, deliveries of BMW cars were down 5.1 per cent at 280,000 units from 295,000 units in the January-March period in 1998, but BMW said it would nevertheless reach last year's first-quarter sales level.

While BMW brand car sales and Land Rover sales rose in the first three months of 1999, Rover car sales fell 38 per cent. Joachim Milberg, BMW chairman, attributed falling Rover sales to the discontinuation of three Rover models, the Rover 100, 600 and 800, the introduction of its Rover 75 model and the strength of sterling.
Uta Harnischfeger, Munich

CLOTHES

Hugo Boss predicts sales rise

Hugo Boss, the German clothes maker, yesterday predicted a 9 per cent rise in sales this year to DM1.46bn (€747m, $800m), but a smaller rise of 3 per cent in net profit to DM100m. The company said its results would be affected by planned expenditures on a new production site for men's clothes and on start-up costs of DM50m for a new Milan-based women's clothes division.

Hugo Boss is aiming for sales of DM100m from the women's collection in 2001, the first full sales year, and annual turnover of DM300m in the medium term. The company's management is proposing to make it easier for investors to trade its shares by implementing an 11-for-one stock split.

Group sales rose by 17.7 per cent last year to DM1.34bn, helped by a strong performance in Germany and other core European markets, and net profit rose by 18.2 per cent to DM97.3m. **Tony Barber, Frankfurt**

AGRO-INDUSTRIALS

Montedison increases 12%

Montedison, the Italian agro-industrial group at the centre of market takeover speculation, yesterday reported a 12 per cent rise in 1998 pre-tax profits before extraordinary gains and charges to L1,668bn (€861m, $925m). Sales rose 5 per cent to L24,870bn. Group net profits totalled L656bn compared with L1,490bn the year before.

However 1997 net profits included a special gain of L1,000bn from the sale of Montedison's 50 per cent stake in the Montell chemicals venture to Royal Dutch/Shell, the Anglo-Dutch oil company that already owned the other 50 per cent of Montell. Although investment spending increased from L1,539bn in 1997 to L2,262bn last year, the Italian group further reduced its financial indebtedness by L533bn to L2,698bn at the end of 1998.
Paul Betts, Milan

PHARMACEUTICALS

Roche reports individual arms

Roche, one of the world's largest pharmaceutical companies, has released profit figures for each operating division for the first time. Pharmaceuticals, which accounts for 60 per cent of sales, had an operating profit of more than SFr3bn ($2.02bn) and an operating margin of 21 per cent.

Vitamins and fine chemicals is the second most profitable division, contributing operating profits of SFr673m and a margin of 19 per cent. Diagnostics, where Roche has been expanding rapidly, had operating profits of SFr578m and a margin of 13 per cent. Fragrances and flavours had operating profits of SFr263m and a 13 per cent margin. **William Hall, Zurich**

BEVERAGES SOFT DRINKS GIANT'S WARNING OF FALL IN GLOBAL VOLUMES TAKES ANALYSTS AND INVESTORS BY SURPRISE

Sales drop hits Coca-Cola shares

By Betty Liu in Atlanta

Shares in Coca-Cola slid in early Wall Street trading yesterday after the US soft drinks giant warned that global sales volume would drop by between 1 per cent and 3 per cent in the three months ending March – the first quarterly decline in several years.

The announcement took analysts, many of whom were expecting worldwide volumes to increase slightly, by surprise and indicated that the global crisis that has hit demand for the soft drink is far from over.

"We upgraded [in December] thinking the worst was behind us. Clearly, it's not," said Jennifer Solomon, beverage analyst at Salomon Smith Barney, which cut its rating on Coca-Cola from "buy" to "neutral".

Goldman Sachs, meanwhile, withdrew the stock from its recommended list, labelling it a "market performer" and estimating earnings for 1999 will remain flat at $1.40.

Investors dumped the shares in morning trading, dragging them down 1\frac{15}{16}$, or 3 per cent, to 62\frac{5}{16}$. Salomon said Coca-Cola could see its share price slip to around $60 in the near term.

Coca-Cola, which derives about 70 per cent of its profits from outside the US, has been hit by tumbling demand in Asia and Latin America – areas that in recent years have seen explosive growth.

The group said yesterday that sales volume would drop 4-5 per cent in Latin America, compared with a reported 19 per cent increase in the first quarter of 1998.

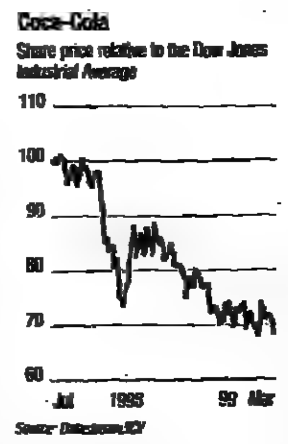
Similarly, sales in Asia – including China, one of the group's most lucrative markets – are expected to slip 1-2 per cent, compared with a reported 18 per cent jump in the first quarter of last year.

Efforts to improve sales overseas have yielded poor results. Last year, for example, Coca-Cola tried introducing a returnable low-cost bottle in Indonesia in the hopes of jump-starting demand amid the country's worst economic crisis in decades.

Car sweepstakes and coupons were also introduced in Germany and Russia to help stimulate consumption, but demand in these countries, as well as in Japan, South Africa and throughout eastern Europe remained depressed and was likely to stay that way in the short-term, Salomon said.

Of most concern, however, is the slowdown in sales volume in the US, which in the past year has remained the one bright spot for the company. Coca-Cola expects volume to increase in the US by about 2 per cent, much lower than the 4 per cent analysts predicted for the first quarter.

The sales volume decline is likely to worsen as prices, kept low over the past few years by competition from PepsiCo, continued to rise at its anchor bottler, Coca-Cola Enterprises.



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IPO is set to inject some fizz into PepsiCo

By Andrew Edgecliffe-Johnson in New York and Betty Liu

The separation of PepsiCo's bottling operations from its soft drink syrup and Frito-Lay foods business, which takes place today, will not only be one of the five largest initial public offerings in the US. It will also mark a fundamental change in the shape of PepsiCo.

More than a decade after Coca-Cola offered the public a majority stake in its largest bottling company, PepsiCo is offering a stake of about 60 per cent in Pepsi Bottling Group.

With a price range of $23-$26 a share, the offering should raise between $2.3bn and $2.7bn.

PepsiCo's profits will look radically different. Without the bottling operations, Pepsi Cola will account for just 30 per cent of operating profits – less than half the amount contributed by Frito-Lay snacks.

Pepsi Bottling Group had sales of $7bn last year, but reported a drop from net income of $59m to a $148m loss after $222m of restructuring charges.

The spin-off, underwritten by Merrill Lynch and Morgan Stanley, will also transform PepsiCo's finances, as the parent company will no longer operate a highly capital intensive, low-margin bottling business. Its debt to capital ratio will halve, to 20 per cent, with obvious benefits to PepsiCo's earnings.

That begs the question of how PepsiCo will spend the money. Peter Swan, an analyst at Olde Discount, believes it will step up share repurchases and look for acquisitions and investment opportunities internationally, particularly for Frito-Lay.

PepsiCo is not saying how the proceeds will be spent, other than to pay down debt. "The purpose [of the IPO] is to strengthen our bottling system and to serve retail customers more effectively," it said. "It leaves PepsiCo to focus primarily on brand building, marketing and advertising."

Indeed, PepsiCo has already begun a prominent marketing push, with well-received television advertisements for its traditional cola and for Pepsi One, its new one-calorie cola.

As for the independent Pepsi Bottling Group, Roy Burry, beverage analyst at New York-based Brown Brothers & Harriman, believes "we'll see a more aggressive bottling company, since 60 per cent of it will be in public hands. It'll lead to a much better managed bottling company with a more contiguous geographic network".

Perhaps more fundamentally, Mr Burry says, the spin-off will in effect "separate personnel types. There's a big difference between someone getting into a truck to visit bottling operators and someone who sits behind his desk all day thinking of marketing campaigns".

Like Coca-Cola Enterprises, Pepsi Bottling Group's fate is unlikely ever to be fully separated from that of its former parent, however.

It will rely on that one supplier for its supply of concentrate and will have close marketing links.

Some analysts believe that PepsiCo and Coca-Cola will behave differently towards their main bottlers now that both are independent.

In past price wars, the bottlers have suffered most, as their gross margins are only about half those of the concentrate makers. Now, some say, there will be a greater incentive to focus on profitability and avoid the much-hyped cola wars.

Mr Burry says, however: "Going forward, PepsiCo will become a more formidable competitor than in the past. It'll still be a distant number two forever but it won't be quite so distant. A more efficient bottling network is a better strategy."

Taking confidence in the Real deal

ABN Amro believes its $2.1bn purchase of Brazil's Banco Real was a sound investment, writes **John Barham**

Last November, ABN Amro, the Netherlands-based international bank, paid $2.1bn to buy Banco Real, Brazil's fourth largest bank.

Two months later, the Brazilian currency crashed, losing 40 per cent of its value. Instead of being a masterstroke, the deal looked like an expensive blunder.

Yet Floris Deckers, the Dutch bank's chief executive for Latin America and the Caribbean, appears commendably cool. "Of course, we would have liked to choose our timing," he says. "But a bank like Banco Real does not come along any time. We did not buy this bank on a whim."

ABN Amro already had a presence in Brazil, mainly servicing multinationals. It also owned Brazil's second largest vehicle finance company. The bank had been on the lookout for an acquisition for some time and began talks with Aloysio Faria, the bank's former owner, two years before closing the deal.

Alan Reid, of Moody's Investors Services – which cut the parent bank's credit rating last December, largely because of its increased exposure to Brazil – says the Banco Real acquisition still makes sense. ABN Amro's two main markets – the Netherlands and the US Midwest – are saturated, and Brazil is now its third largest market.

Mr Deckers dismisses concerns that devaluation was such a calamity, noting that Banco Real was shielded from the full effects of devaluation because 50-60 per cent of its equity is held in branches and subsidiaries overseas.

'In the future, there will be five or six big banks, including two foreign-owned ones, and we aim to be one of them'

But combined with a severe recession, devaluation will still hurt credit quality and profits, and Mr Deckers needs to make Banco Real, with its $13.76bn in assets, work all the harder to make up the equity lost with the devaluation.

He wants to see the Banco Real group, which now includes a small privatised state bank in the impoverished north-east of Brazil, return 18 per cent on the investment within two to four years.

The ageing Mr Faria, who inherited Banco Real from his father, ran the bank as an autocrat who inspired fierce loyalty. His overbearing style is still visible: a slogan, based on the national motto and nailed in big metal letters on the wall of the bank's lobby, reads: "Order without progress is useless. Progress without order is false."

Mr Deckers says he is less of a stickler for formality, but does insist on strict internal controls and expects performance targets to be met. The bank needs a more aggressive credit culture without compromising the balance sheet's integrity, Mr Deckers says.

Under Mr Faria, Banco Real did not lend to companies "it did not understand. I would rather increase the level of understanding".

Banco Real

Assets	(US$bn)
1995	8.00
1996	11.51
1997	13.53
1998	13.76
Net profit	(US$m)
1995	79.44
1996	87.87
1997	94.54
1998	90.71

Source: Banco Real

Upgrading Banco Real's information technology is also a high priority.

Yet Mr Faria's conservatism also meant he bequeathed a sound balance sheet to ABN Amro.

Mr Deckers says: "This is a good bank. It has no excessive capital. There is no need for surgery." Other foreign banks, such as HSBC, Banco Santander and BBV, had to spend heavily on tidying up their troubled Brazilian banks.

Brazil's banking system is in good shape to weather the crisis, thanks to $55bn in government bail-outs.

But there are still 103 commercial banks and the market is ripe for consolidation. Mr Deckers says that in the future, "there will be five or six big banks, including two foreign-owned ones, and we aim to be one of them".

Corel rises on link with PC Chips Group

By Scott Morrison in Toronto

Shares in Corel surged 22 per cent in early Toronto trading yesterday after the struggling Canadian software group signed an agreement that will see its WordPerfect products shipped with every motherboard package produced by PC Chips Group, the Hong Kong computer manufacturer.

Corel said it expected PC Chips to ship 18m copies of WordPerfect Suite 8 in 1999. The alliance also calls for a joint marketing campaign for Corel's future word processing, graphics and e-commerce products.

The agreement was seen as giving Corel much broader global reach, but analysts noted that an alliance with leading PC manufacturers such as Compaq or Dell would have had much greater impact.

It was not clear how much revenue the agreement would generate. In most cases, software is provided to manufacturers at low cost with the expectation of earning revenues as users purchase upgrades.

Michael Cowpland, Corel chief executive, said the deal would make Corel a leader in business productivity applications in the sub-US$1,000 PC market.

PC Chips sells motherboards and other peripheral products such as CD-Roms, floppy drives and graphics boards to third parties under its own brand names in more than 30 countries.

PC Chips' brand names include Protac in Europe and Asia, as well as ECS and Astral in the US.

Over the past year, Corel has overhauled its executive team, cut costs and reorganised its sales structure in a bid to revive its fortunes.

The company had carved out a lucrative niche with its CorelDraw software, but ran into difficulties when it acquired WordPerfect, the word processing package, and attempted to challenge Microsoft in the office software market.

Corel's first-quarter results last week revealed another loss, just three months after it recorded a small fourth-quarter profit – its first in two years. The shares were C$1.01 higher at C$5.55 by midday in Toronto.

FINANCIAL SERVICES MORE GROUPS SEEK SHIFT IN BRANDING TO BACK OF CREDIT CARDS

Banks want Visa logo moved

By Nicholas George in Stockholm

Malcolm Williamson, president of Visa International, yesterday admitted that several member banks had followed Citigroup, the US-based financial services conglomerate, in asking the credit card association to change its branding policy.

Citigroup quit the board of Visa USA in February, demanding that Visa allow it to move the Visa logo to the back of the card.

Visa refused, and Citigroup responded by moving a sizeable part of its business to Visa's rival, Mastercard.

Speaking at a meeting of Visa's European members in Stockholm yesterday, Mr Williamson said other banks had said they were also looking at moving the logo.

"Clearly this is something that has interested Citigroup, but I would emphasise that it is not just Citigroup that is interested in doing this," he said.

"I think other banks have ambitions which may extend to moving part of their card base to a mark on the back rather than a mark on the front, because they see the importance of getting their brand better recognised than they have in the past," he said.

However, Mr Williamson pointed out that Visa is one of the world's best known financial services brand names, "so clearly we have to think very carefully before we could do anything that might actually damage it".

Mr Williamson said he was not personally "hugely opposed to the move".

He added that some of the issues that troubled Citibank and the other big banks went beyond branding. He pointed to Visa's role in research and development, which some larger banks did not see as being in their interests.

"I think a number of big banks see it as levelling the playing field between big and small banks, which is something they are not very keen on," he said.

In a separate statement, Hans van der Velde, president of Visa EU said the European association had cut fees to members by €30m ($32m), which made Visa about 10 per cent cheaper than competitors.

He pledged that this gap would increase to 25 per cent over the next two to three years.

Reporting on 1998, Mr van der Velde said the total number of Visa cards in circulation in the European Union by the end of the year had risen 14 per cent from a year earlier, to 135m, with the number of transactions up 17 per cent to 6.4bn.

هكذا من الأصل

PO is set to
nject some fiz
nto PepsiCo

isa logo move

THEY SAY THERE ARE NO HEROES any more. But they're there. Walk down any street and you will find them. The mothers who work, the fathers who strive, the children who overcome. They aren't larger than life, but they are larger than their own lives. Their names aren't famous, but their virtues are. Hard work. Common sense. An unshakable belief in themselves. If you're looking for a hero, look around.

HUMAN ACHIEVEMENT   Merrill Lynch

ML.COM

AVIATION JAPANESE AIRLINE SAYS LOSSES WILL BE DOUBLE EARLIER FORECASTS

ANA issues profit warning

By Alexandra Harney in Tokyo

All Nippon Airways, Japan's second biggest airline, warned yesterday that losses this year would be more than double earlier forecasts because intensified competition from domestic start-up carriers had squeezed profit margins.

ANA said parent operating losses would be about Y11bn ($91.9m), compared with profits of Y646m last time, on revenues of Y900bn. Last October the group forecast operating losses of Y5bn in the year ending this month.

The warning, which came as ANA unveiled a modest restructuring, means the airline will suffer its third year of losses out of the past six. Last year ANA suspended its dividend for the first time in 30 years as passenger numbers fell as a result of Japan's recession.

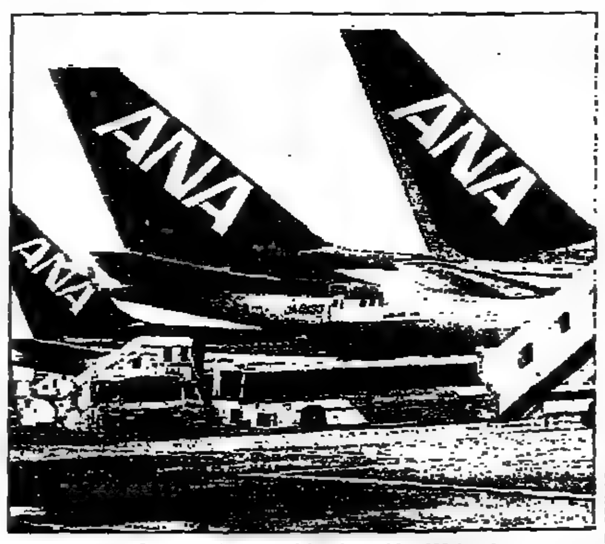
It also underlines the impact Skymark and AirDo, the country's first new airlines in 35 years, are having on Japan's established carriers. The companies triggered a fare war last year by launching domestic flights at fares half those of ANA, Japan Airlines (JAL) and Japan Air Systems, the three main carriers.

ANA said the main reason for the revision was an unexpected contraction of yields on its domestic routes as a result of the start-up carriers. Net losses would be Y8bn, compared with Y2.7bn in losses last year. It also expected to record an extraordinary loss worth about Y15bn from the liquidation of ANA Finance, a financing subsidiary.

Analysts said the warning came as little surprise. In addition to price competition, ANA, like other Japanese carriers, has been forced to raise capacity on routes to outlying regional airports under pressure from the Ministry of Transportation. At the same time, passenger volumes have tumbled as consumer sentiment has weakened and international competition has intensified because of lower fares and declining demand from Japanese business travelers.

Only one-third of its domestic routes were generating profits, the company said. Analysts said that although the company did not disclose enough information to make precise calculations, overseas routes were believed to be loss-making.

In response to the deteriorating conditions, ANA said it would accelerate its restructuring by cutting board members' salaries and shrinking the board from 31 to 19. The reforms are aimed at resuming dividend payments by the year ending in March 2001. But some analysts said the moves were too little, too late, particularly in comparison with those undertaken at JAL.



Recession and increased competition have hit ANA hard

FINANCE MOVE WILL BE CLOSELY WATCHED

Tokai Bank to forgive Y220bn debts

By Gillian Tett and Naoko Nakamae in Tokyo

Japan's Tokai Bank said yesterday it would forgive about Y220bn ($1.83bn) worth of debt to Fujita, the construction company, and Towa Real Estate Development, a property company.

The move marks the largest debt forgiveness by a single bank to date in Japan, where financial companies have been reluctant to dispose of their pile of bad loans.

Tokai's move is likely to be closely watched by the markets, since many analysts believe the next step to resolving Japan's long running bad loan problems will be implementing widespread debt disposals.

The decision comes as the government is considering a controversial debt-for-equity swap system in another effort to tackle the country's banking problems.

The concept of a debt-for-equity swap scheme was floated by business groups last year, but was abandoned because some banks argued it would be impractical. This type of scheme, which has been used in other G7 countries, typically allows a bank to take a free equity stake in a company while forgiving part of its debt.

However, the concept has been revived again this month in Japan, partly because some business groups now believe direct debt forgiveness of the sort offered by Tokai yesterday unfairly rewards shareholders at the expense of banks.

In recent days, for example, the share prices of some construction companies have risen sharply on hopes of debt forgiveness.

Takashi Imai, head of the Keidanren, Japan's leading business federation, said: "The concept of shareholder responsibility means that these companies should reduce their [shareholders'] equity as well [and] management should [take responsibility] and resign."

However, the Keidanren believes the debt for equity swap plan would provide a better option than debt forgiveness because it would give the banks more incentive to make debt disposals.

It also believes the plan could encourage companies to restructure and thus help reduce Japan's excess capacity problem.

The details of any proposed plan are still unclear. But the concept is supported by officials at the Ministry for International Trade and Industry and the Ministry of Finance, and some banks have indicated support.

Sakura, which is also considering forgiving Y62bn debt to Fujita, said it would favour the scheme over a straight forgiveness.

"If Fujita would like to give us some shares [in exchange for debt forgiveness] I think we would like this," said Hirokazu Ishikawa, managing director.

Additional reporting by Alexandra Harney

Hopewell earnings slide to $11.94m

By Rahul Jacob in Hong Kong

Hopewell Holdings, the Hong Kong-based infrastructure group, yesterday announced net profit of HK$92.6m (US$11.9m) for the six months to December 31 1998, down from HK$1.4bn in the same period in 1997.

The previous year's interims, however, were boosted by the HK$2bn sale of a remaining stake in Consolidated Electric Power Asia.

Hopewell reported a loss of HK$2.81bn for the year to June 30 1998, due to a large provision against a power plant project in Indonesia after banks pulled loans and the project was halted. The company also made provisions in 1997 and 1998 for its project to build an elevated rail system in Bangkok.

The company heralded its return to profitability, attributing it to better business prospects for the toll road network it is building in southern China.

"The strong foundation of our business is the Delta Road network in China, where income levels have been unaffected by the economic turmoil in Asia," said Gordon Wu, chairman.

The company said that toll revenues on its GSZ Superhighway, which connects Guangdong province to Hong Kong, had increased 11 per cent and the average daily traffic flow was up 7 per cent to 75,300 vehicles.

Turnover declined from HK$735.76m to HK$660.14m. The interim dividend is unchanged at 5 cents.

Acer predicts 40% quarterly sales rise

By Mure Dickie in Taipei

Acer, one of the world's top three personal computer makers, expects a surge in shipments to lift sales 40 per cent year-on-year in the first quarter, setting the Taiwanese company on course for higher profits in 1999.

Most of the growth in shipments in the first quarter is expected to come from contracts to supply PCs and notebook computers for sale under other brand names.

Company officials said they also hoped to trim hefty losses from Acer's US and other overseas units after a disappointing 1998.

Notebooks had been leading the sales charge in the first three months, said Henry Wang, Acer spokesman.

He added that, while original equipment manufacturer (OEM) deals to supply other companies would initially steal the limelight, sales of computers carrying Acer's own brand name would catch up.

"For the whole year, both OEM and own-brand-name sales will enjoy considerable growth," Mr Wang said.

He said output of notebook computers would jump to between 1.2m and 1.5m, up from 800,000 last year, and there would be strong growth in production of desktop computers.

Acer's overall sales were expected to grow about 20 per cent in 1999, with profits also higher though by a lesser amount, Mr Wang said.

That disparity reflects fierce competition and narrowing margins that helped to cut Acer's 1998 profits 33 per cent year-on-year to T$2.49bn (US$75m), despite a 40 per cent jump in revenues.

US losses would total some T$20m in 1999, down from T$50m last year as Acer withdrew from retail channels to concentrate on commercial and corporate sales, Mr Wang said.

Internet-based direct selling in the US would also be a positive factor, although its contribution would be relatively minor.

Mr Wang said overall losses from Acer's overseas units would fall in 1999.

The group's bottom line is likely to be buttressed by a rise in chip prices that is expected to return its troubled chip unit, Acer Semiconductor Manufacturing, to profitability.

Acer Semiconductor said yesterday it was in talks with Episil Technologies on a joint venture deal that would allow it to sell its six-inch wafer production equipment. Acer Semiconductor has already stopped producing six-inch wafers.

Software's coming of age

Mure Dickie reports on Taiwan's change of attitude

For companies trying to list shares on Taiwanese exchanges, software has long been a hard sell.

Entrepreneurs complain that bourse officials have tended to look unfavourably at software companies because of their lack of tangible assets, neglecting the management flair and code-writing skills that have made them the darlings of US exchanges.

Last week, however, Taiwan's over-the-counter exchange welcomed its first pure software company, Ulead Systems, in the first of a spate of listings that will end the sector's exclusion from local capital markets.

"We feel so happy that Ulead got approval from the stock exchange," says Alice Chang, chief executive of CyberLink, a local video and audio software company. "It proves those guys at the stock exchange are trying to change their minds."

The promise of freer access to capital raises hopes that Taiwan's software ventures will shrug off their role as mere pilot fish to the island's mighty chip makers, peripherals producers and PC assemblers.

While Taiwanese companies were estimated to have sold software and information technology services worth just US$2.2bn in 1998, compared with $33.8bn of sales by the hardware sector, many officials and executives believe developing software skills is essential to sustaining Taiwan's status as Asia's "Silicon Island".

The new OTC listings are the result of rules that impose strict controls on post-issue stock sales by a software venture's biggest shareholders.

Software entrepreneurs complain the rules discriminate against them. However, Kevin Hsiao of China Securities says they reflect a culture that sets great store by bricks and mortar.

"People in Taiwan tend to evaluate companies based on their fixed assets," says Mr Hsiao. "That will change as the industry develops."

Certainly, Taiwan's entrepreneurial business culture and its enthusiasm for things digital augur well for the sector. Ulead, which produces imaging software, enjoyed 40 per cent sales growth last year and its thin fixed asset sheet proved no barrier to a smooth listing.

Next in line for entry to the OTC market is Ares International, which specialises in software for banks and government offices.

Ms Chang of CyberLink says she is still weighing the merits of a public issue in Taiwan against listing in the US or Hong Kong. Ulead's market performance will be a leading factor in deciding regulators' willingness to ease the listing requirements on software companies, she says.

Taiwan IT industry summary

1996

Production value	1998* ($m)	Growth rate (%)
IT hardware	33,776.0	11.9
IT software & services industry	2,198.9	14.2

* Estimate

Source: Market Intelligence Centre

With the government already firmly committed to turning Taiwan into a programming powerhouse, pressure is growing for securities officials to take a more adventurous approach.

Taiwan's clout in electronics hardware is likely to help software developers to break into international markets. Taiwanese firms dominate production of PC peripherals, such as scanners, that are sold with the software required for their use.

Expertise in Chinese-language programs should be a boon, although Beijing has been wary of Taiwanese-developed software.

The sector's potential is demonstrated by Trend Micro, which has bucked Taiwan's reputation for anonymous manufacturing by using advertising to win hefty market share for its anti-virus programs. Ironically, Trend Micro listed its shares in Japan last year.

Fuelling the drive toward software development is concern over falling margins in many of the sectors where Taiwanese companies are strongest, as computer parts and peripherals become ever more commoditised.

The island's most famous computer company, Acer, is developing an industrial park focused on software development as part of its search for higher returns.

Acer's Aspire Park joins similar efforts by the government to build software hothouses, a strategy employed to great effect in development of the island's electronics industry.

However, to some observers such construction projects betray the same kind of misunderstanding of the software industry that has kept programmers out of the stock market. To see its software sector properly flower, Taiwan may have to put a little less emphasis on tangible assets.

Hino revises loss forecast to Y43.1bn

Hino Motors now expects a pre-tax loss of Y43.1bn ($360m) for the fiscal year ending March 31, much worse than its earlier forecast for a loss of Y28bn, APDJ reports from Tokyo.

The truck-making affiliate of Toyota Motor yesterday cited a worse-than-expected fall in domestic heavy-duty truck and bus sales for the downward revision, as well as continued sluggish shipments to south-east Asia, its main export market.

Hino expects a net loss of Y35.8bn, compared with Y9.20bn projected earlier, and sales of Y417.8bn, compared with Y444bn. Last year the company posted a pretax profit of Y4.59bn, net profit of Y3.64bn and sales of Y575.21bn.

Yoshio Yoshizawa, senior managing director, said Hino was also expecting an operating loss of Y41.7bn, compared with an earlier forecast of Y25bn.

He added Hino expected earnings to improve next fiscal year, with sales expected to climb to Y450bn and operating income to come in, at worst, flat. Operating income was expected to improve, helped by the rise in sales and cost-cutting.

Enterprise/Lasmo talks called off

By Robert Corzine and Thorold Barker

Enterprise Oil and Lasmo, the UK's two biggest independent oil explorers, yesterday called off protracted merger talks to create a British "super-independent" worth more than £3bn ($5bn).

The discussions which began last December, are said to have foundered because Lasmo, the smaller of the two, was unconvinced by Enterprise's argument that a combined group would be more competitive in a low oil price environment.

"Companies the size of Enterprise and Lasmo should be able to deliver a return throughout the [commodity] cycle," said Joe Darby, Lasmo's chief executive yesterday. "I'm not convinced a bigger company would be that much stronger."

Enterprise, which in 1994 failed to acquire Lasmo in a hostile bid, said both companies "concluded that they are better placed to add value independently". But it was clear throughout the talks that Enterprise, and its chief executive, Pierre Jungels, were the main advocates of a merger.

Last night Mr Jungels said: "I'm grown up enough to realise that sometimes these things fail".

Over the course of the talks few City analysts and investors had warmed to the proposed deal.

However, Iain Reid, an analyst at Warburg Dillon Reid in London said: "For Enterprise it made more sense. Getting Lasmo's low-cost, on-shore assets would have offset its high cost position in the North Sea. For Lasmo it would have been a retreat from its on-shore strategy."

Mr Darby said the projected cost savings for a combined group were modest, at about £20m a year, and did not offset "the people risks", wide differences over organisational philosophy and conflicting corporate cultures and aims.

Sources close to Enterprise suggested that Lasmo executives had never given up their desire to remain independent: "They were more of a mind to survive."

People close to Lasmo insisted the eventual outcome was not inevitable. "It was a close call. The length of the talks shows how serious they were", said one.

Analysts said both companies were credible bid targets for bigger oil groups.

Rugby puts focus on cement side

Peter Johnson: profits rise 44%

By Charles Pretzlik and Gwen Robinson in Sydney

Rugby Group yesterday announced plans to sell its joinery and US distribution business and has agreed to take a controlling stake in Adelaide Brighton, the Australian cement producer. The move means Rugby will become a more focused cement and lime producer which analysts believe could make it vulnerable to a takeover.

Jonathan Timms, an analyst at Charterhouse Securities, said: "If these deals go through, it will be a purer play and therefore more likely to be bid. Whoever doesn't get Castle [which is being sold as part of Scancem, the Nordic group] might go for Rugby."

Peter Johnson, chief executive, said Rugby was in advanced talks to sell most of its joinery and US distribution business to Jeld-Wen, a privately-owned group based in Oregon. He said it would be sold for more than its £251m net asset value.

In Australia, Rugby is injecting Cockburn, its cement and lime business, into Adelaide Brighton in a series of deals that will leave it with 55 per cent of the enlarged group. This will create the country's largest cement and lime producer. The deal is being scrutinised by the Australian Competition and Consumer Commission.

Rugby, which said cement prices rose by 3 per cent last year, reported a 44 per cent rise in pre-tax profits in 1998 to £98.2m ($160m) after a £33.7m profit on the sale of its Pioneer laminates business. Group turnover fell 4 per cent to £1.02bn.

Sales from joinery and US distribution fell 6 per cent to £717m and profits rose 4.5 per cent to £30.1m. A 2.55p final dividend lifts the total 7.5 per cent to 4.3p. The shares gained 3p to 113p.

Investors move on CSG board

By Caroline Daniel and Clay Harris

Three big investors have announced plans to remove the chairman and four other directors of Corporate Services Group after the employment and training services company issued its second profits warning in three weeks.

The three investors, which hold 31.59 per cent of CSG's shares, said they had "lost confidence" in Jeffrey Fowler, executive chairman, and the other directors.

Schroder Investment Management, Mercury Asset Management and M&G Investment Management requisitioned an extraordinary meeting, at which they aim to replace Mr Fowler with Michael Davies, chairman of National Express and a non-executive director of British Airways.

Shares in CSG closed 6½p lower at 71p, compared with a high of 262p last July when the company was capitalised at £520m. The company, which has operations in France and the US as well as the UK, said yesterday that "a number of further issues had been identified", forcing it to postpone the announcement of 1998 results from today until April.

It said it expected 1998 profits before tax, interest, goodwill amortisation and exceptional items of about £20m ($33m) rather than the £33.5m forecast in a profits warning on March 8. It also cautioned on the final dividend. Before the warnings, analysts had forecast pre-tax profits of about £46m.

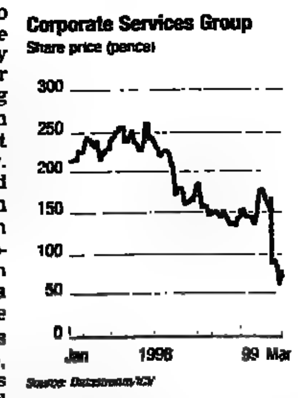
Tim Steer, a Merrill Lynch analyst who has followed CSG, said: "These adjustments are so large as to raise questions about the historic profit record of the company."

The three institutions indicated that their effort to purge the board resulted from an inability to get satisfactory answers about the company's affairs. They aim to elect, in addition to Mr Davies, Gilles Avenel, former finance director of Sun Life and Provincial Holdings, and Peter Button, former corporate finance executive at Dresdner Kleinwort Benson, the investment bank advising the three institutions.

Those targeted for removal are commercial director John Abrahamson and non-executive directors Tim Holland-Bosworth, Ronald de Young and Ralph Hulbert, who is chairman of the audit committee. Under the institutions' plan, David Lake would stay on as finance director.

COMMENT

Corporate Services



Investors have been kind to the accident-prone Corporate Services Group. At least they had the courtesy to wait for the second profits warning before rebelling, even though the first should have set alarm bells clanging loudly. Among the problems cited first time round was an opaque-sounding "change in the basis of certain cost allocations". Problems with credit management and a socking write-off of the value of loan notes, received as payment for a trade sale, compounded the woes. It was hard to see how things could get worse. But they did – a mere three weeks later. The company chose not to explain yesterday why profits for 1998-99 could be £13.5m lower than was expected at the start of the month. Was it further changes to the allocation of certain costs? Was it the accounting treatment of certain items of expenditure? Shareholders need to know.

CSG's three main investors have called an extraordinary general meeting to clear out five directors. Those in the line of fire should save their shareholders the trouble and go of their own accord. Corporate governance addicts will note that three non-executives are among those being asked to carry the can – a salutary move towards increased accountability.

Enterprise Oil/Lasmo

Surprise, surprise. Now that the oil price is resurgent, Enterprise and Lasmo have abandoned their pointless merger talks. Both companies have outperformed the market since discussions started, rising more than 50 per cent from their winter lows. But this had nothing to do with the merits of creating an exploration and production "super-independent" and everything to do with higher expected cash flows from the oil price.

Since their assets hardly overlapped, the only savings on offer were a pitiful £20m from merging the two head offices, which looks risible when set against the rich pickings available to majors from slashing away at downstream assets. And given the bad blood between the companies, which dates back to Enterprise's 1994 hostile bid, forging a united management team would have been difficult.

So investors should treat yesterday's news with relief, even as they scratch their heads over the amount of time wasted on a deal that promised so little.

Pressure on Signet to sell US stake

By Peggy Hollinger

A battle was brewing between Signet and its second-largest shareholder last night as the jewellery retailer roundly rejected a call to sell part of its US business.

James McAdam, chairman, said a partial flotation or trade sale of the US division was "not in shareholders' best interests". The company did not have the distributable reserves to allow it to return the proceeds of a sale to shareholders, and a partial float would only "dilute shareholders' interests in a growing business".

The group yesterday announced better than expected annual profits and its first dividend payment in almost six years. The US operation accounts for 64 per cent of sales and 75 per cent of operating profit, and was the main factor behind the rise in the pre-tax return from £68.7m to £89.2m ($146m). Sales were 7 per cent ahead at £991.2m for the year to January 30, a like-for-like rise of 6 per cent.

But Resurgence Asset Management, the US fund manager which owns 6 per cent of Signet shares, believes the value of the US business is not being reflected in the share price because of difficult trading in the UK. It has called on the board to sell at least 20 per cent of Sterling, its US business, through an initial public offering in the US.

A resolution has been put forward for the company's annual meeting in June.

Sainsbury finance director to leave

By Peggy Hollinger

J Sainsbury yesterday announced the surprise departure of Rosemary Thorne, its finance director, in a move viewed by analysts as an attempt to strengthen its board.

Ms Thorne, 47, will leave "by mutual consent" in July, after seven years with the UK's second-largest supermarket company. Sainsbury said it was looking for an outsider as her replacement.

It is understood the company is looking for a finance director who will contribute to its strategic direction. "They want someone with a lot more experience in dealing with investors and who can do more strategic work," said a source close to the company.

However, recruitment consultants questioned whether strategic thinking was a forte of retail finance directors. "All you need is someone who can adapt to a very fast moving market," said Sam Johar, of Buchanan Harvey, a recruitment consultant.

He suggested Keith Hamill of WH Smith or David Kerns of Next as possible candidates.

The shares closed down ½p at 380½p.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Arcolectric	Yr to Dec 31	17.2	(16.3)	0.385	(1.11)	4.53	(11.24)	0.849	May 17	0.772	1.74	1.581
Arnotts ♣	Yr to Jan 31	103.1	(78.6)	9.32	(7.72)	42.5	(43.8)	11	Mar 31	9	15.5	13
Barlows	Yr to Dec 31	6.28	(6.69)	0.938♠	(2.2)	1.36	(5.04)	1.7	May 25	1.7	2.5	2.5
Breedon	Yr to Jan 31	17.2	(15.4)	4.4♥	(3.43)	11.23	(8.32)	4.07	May 28	3.7	6.38	5.8
Chime Comms	Yr to Dec 31	80.9	(42.4)	6.35	(3.83)	4.8	(3.8)	1.52	June 24	1.25	2.22	1.9
Clubhaus	Yr to Dec 31	24.1	(17.9)	8.56♥	(6.08♥)	7.8†	(5.3)	-	-	-	-	-
Cussins Property	Yr to Dec 31	38.5	(34.1)	3.25	(3.25)	12.8	(13.07)	3.015	June 9	2.94	4.715	4.51
Goshawk Insurance	Yr to Dec 31	49.1□	(37.8□)	6.81	(7.13)	7.87†	(9.55)	2	June 9	1.7	3.2	2.9
Hamleys	Yr to Jan 30	48.4	(48.7)	8.41♥	(7.57♠)	20.1	(22.2)	7.7	June 18	7.7	11	11
Howden Stuart	Yr to Jan 31	279.7	(296.3)	41.3	(38.6)	10.5	(10.01)	2.75	July 8	2.6	3.85	3.6
Highland Distillers	6 mths to Feb 28	112.4	(113.7)	23.5	(25.1)	11.6	(12.5)	2.3	June 7	2.2	-	9.35
Holders Technology	Yr to Nov 30	8.5	(10.3)	1.01	(0.939)	16.98	(14.77)	5	May 24	4.75	7	6.75
Huntleigh Tech	Yr to Dec 31	107.9	(95.5)	14.4	(11.5♠)	11.9	(9.16)	1.85	July 1	1.7	3.5	3.1
Independent Radio	Yr to Dec 31	3.94	(3.59)	2.49L♠	(2.83L♠)	13.5L	(15.5L)	-	-	-	-	-
Johnston Press	Yr to Dec 31	201.7	(212)	45.9♥	(34.6♠)	15.7	(11.98)	2.35	May 21	2	3.5	3
Manchester United	6 mths to Jan 31 ★	56.6	(51.8)	11.1♠	(15.4)	3	(4.2)	0.55	May 5	0.52	-	1.7
Mears Φ	Yr to Dec 31	19.6	(15.7)	0.82	(0.652)	1.56	(1.23)	0.3	July 1	0.22	0.4	0.32
Oliver	Yr to Jan 30 ★	73.9	(72.4)	0.107L♠	(2.16L♠)	0.28L†	(8.54L)	nil	-	nil	nil	nil
Paladin Resources	Yr to Dec 31	9.1	(12.3)	1.18L	(10.8L♠)	1.04L†	(18.51L)	nil	-	nil	nil	nil
Peterhouse	Yr to Jan 4	68.1	(26.8)	3.07	(1.34♠)	13.1†	(14.7)	2.4	June 4	2	4.5	3.7
Pilat Tech Φ	Yr to Dec 31 ★	17.1	(17.1)	0.091	(1.47)	0.58L	(4.16)	0.9¤	May 24	1.2	0.9	1.2
Providence Res ♣	18 mths to Dec 31	1.45	(-)	1.9L♠	(-)	0.03L	(-)	-	-	-	-	-
Rathbone Bros	Yr to Dec 31	61.5	(50.6)	18	(10.8♠)	39.31†	(24.89)	12	May 14	9	18	14
R'sons Westgarth	Yr to Dec 31	134.4	(126.5)	0.293♠	(6.13)	0.5	(11.3)	nil	-	2.9	1.8	4.5
Rugby	Yr to Dec 31	1,020	(1,065)	98.2♥	(68.1♠)	9.8	(7.4)	2.55	June 25	2.35	4.3	4
Save	Yr to Dec 24	422.8	(420.6)	4.62♠	(7.32♠)	6	(9.7)	nil	-	3.9	3.3	7.1
Scotia	Yr to Dec 31	18.6	(18.9)	16.6L♥	(20.7L)	23.6L	(28.5L)	-	-	-	-	-
Selfridges	Yr to Jan 30	307.4	(296.9)	13.9♠	(15.3♠)	9.3	(2L)	3.2	June 4	-	4.8	-
Signet	Yr to Jan 30	991.2	(927.9)	89.2	(68.7)	3.9†	(19.9)	1	July 1	nil	1	nil
Zergo	8 mths to Dec 31 ☆	9.88	(13.2)	5.17L	(0.297)	27.8L	(1.1L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Henderson Japanese	6 mths to Jan 31	44.82	(46.39)	0.097L	(0.274L)	0.1L	(0.27L)	-	-	-	-	nil
Jupiter Intl Green	Yr to Dec 31	52	(68.2)	1.07	(1.1)	4.01	(4.37)	2.5	-	2.4	4.2	4.1

Earnings shown basic. Dividends shown net except ¤Gross throughout. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Total technical income. ★Comparatives restated. ΦAim stock. ☆Comparatives for year to April 30 1998.

BP Amoco/Arco statement near

By Robert Corzine in London and William Lewis in New York

A formal announcement of the planned takeover of Atlantic Richfield (Arco) of the US by the UK-based BP Amoco was now planned for Thursday, said people close to the two companies.

The BP Amoco board met in London last night to formally consider the proposal to take over Arco. Amid signs that the board would give Sir John Browne, chief executive, approval, attention moved to the likely response of the Arco board.

A Thursday target date for a formal announcement would give ample time for Arco's board to meet at the company's Los Angeles headquarters. The deal had been expected to be announced today. Before the deal was leaked, the companies had been planning to announce their transaction after Easter.

The companies have not divulged specific financial details of the proposed transaction, but the premium that BP Amoco is prepared to pay to acquire Arco is said to be in line with other recent deals, including BP's acquisition last year of Amoco, and Exxon's proposed takeover of Mobil.

The deal is likely to value Arco at closer to $25bn than $30bn, according to analysts. However, it could be delayed because of examination by US regulatory authorities.

In trading on Wall Street yesterday morning, Arco's stock price fell 1/16 to $73¾. BP Amoco's shares rose 2p to £10.79.

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RECRUITMENT

RICHARD DONKIN

Watching that clock

The advance of the 24-hour society is curtailing workers' freedom of choice

It's one in the morning, the children are tucked up asleep and my wife went to bed hours ago. There's just me and the hamster. He's gnawing away at the bars of his superior hamster penthouse and I'm tapping away at the keyboard, one of countless unrecorded individuals who work the odd unsocial hour purely by choice.

Leon Kreitzman's recent book, *The 24-hour Society* celebrates the increasing choice available for meeting the demands of flexible working. More shops are opening at night offering more options over shopping hours.

He estimates that up to 4m people in the UK work late in the evening or during the night over the course of a year. Some 20m people in the US work regularly at night.

The world is changing. Shops, pubs, supermarkets and petrol stations are increasingly adopting late night and 24-hour opening while call centres allow round the clock banking and the internet provides constant access to many more services.

Mr Kreitzman believes the 24-hour society is inevitable. Manufacturing companies, he says, cannot ignore the economic sense of working round the clock, decreasing downtime on machinery. But should we welcome such developments?

Shift working has been a feature of industrial output for years. Karl Marx wrote of the "vampire thirst for the living blood of labour" that drove capitalist production to 24-hour working.

Today, however, an increasing proportion of the middle classes is moving over to night working. Not so long ago I had lunch with a solicitor who bridled at my suggestion that he should do less work. It was only when leaving I discovered he had installed a bed in his office to help him meet demanding deadlines from clients.

This is the problem of flexibility. We can work the hours we choose but sometimes we are not the best judges of what is good for us. Not only that, freedom of choice is a weapon that is being denied to many who may want to drive back the 24-hour tendency.

The Keep Sunday Special Campaign has maintained a detailed log of complaints from people who say they have been pressured by employers and occasionally their colleagues, into working against their will on Sundays. The Sunday Trading Act was supposed to protect employees who wished to keep their Sundays free.

In practice, says the campaign, many employees have been coerced into working and the payment of a single-time rate has replaced double-time as the most common form of employee pay on Sundays.

The campaign has produced a draft Employer's Charter urging companies to recognise the needs of employees to share time with their families, relatives or close friends. The charter is a modest document but any company which signs it would at least be able to demonstrate some social commitment to its employees.

Failure to do so is unlikely to lead to much censure in the UK, not now at least, but the picture is beginning to look quite different in the US. American workers are finding that one of the best ways of avoiding Sunday working is to find religion. With more than 1,500 recognised religious organisations in the US there is no lack of choice.

Companies that insist employees work against the codes of their religion can face a religious discrimination law suit and the number is growing according to Goldberg, Kohn, Black, Rosenbloom & Moritz, an employment law group which says that 1,786 religious discrimination charges were filed in the US with the Employment Opportunity Commission in 1998.

The onset of a 24-hour society may imply freedom of choice for some but for every winner there seems to be a loser. Mr Kreitzman's book has some timely observations but it may only have scratched the surface of the social implications in such developments.

The 24-Hour Society, by Leon Kreitzman is published by Profile Books, price £16.99. Co-ordinator of the Keep Sunday Special Campaign is John Alexander, tel 01223 566319.

Headhunter ahead

Two prominent executive search newsletters, Executive Recruiter News and Executive Research Review are agreed in their latest issues that Korn/Ferry International has retained its status as the world's largest headhunter but they appear divided over whether it can still head the top 10 search firms list in the all-important US market.

Executive Search Review places Korn/Ferry International at the top of its US league table with $178.6m in revenues. This includes some $1.6m in revenue pulled in by Futurestep, Korn/Ferry's internet-based search business set up as a joint venture with the Wall Street Journal.

Executive Recruiter News, however, has not included the Futurestep revenues, allowing Heidrick & Struggles to claim the number one spot in its own US rankings with revenues of $178m.

There are other reasons for keeping a close eye on the fortunes of both Korn/Ferry and Heidrick & Struggles. Korn/Ferry recently carried out an initial public offering and Heidricks plans to do so soon.

The table here shows the top 10 executive search consultants worldwide on the basis of 1998 revenues. Among the big five search firms, Korn/Ferry, Heidrick & Struggles and Egon Zehnder International all maintained strong double-digit growth.

Russell Reynolds grew by just 3 per cent in terms of revenues but they secured the largest revenues per search team member – $616,233 – among the top 20 firms.

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Top 10 executive search firms

	1998 Revenues ($m)*	1-year Growth rate (%)	1998 Revenue per search team member ($)**	1998 Offices
Korn/Ferry International***	339.08	19	421,217	71
Heidrick & Struggles†	324.08	25	431,915	59
SpencerStuart	238.80	9	505,932	49
Egon Zehnder International	216.10	28	581,606	52
Russell Reynolds Associates	189.80	3	616,233	33
Amrop International	140.20	-25	319,382	65
H. Neumann International	130.70	60	578,319	44
Ray & Berndtson	130.20	11	390,991	46
LAI Worldwide††	84.89	n.a.	404,279	21
TranSearch International	73.00	7	257,942	67

Bold firm names represent those which provided audited/accountant verified figures
* Revenues, less reimbursed expenses, in $m for calendar 1998, unless otherwise noted
** Search team includes all partners (or equivalent), consultants/recruiters and researchers
*** Excludes "other income and interest income" and Futurestep operations. Personnel figures reflect firmwide April 30, 1998 fiscal year-end
† Figures reflect acquisition revenue from former Fenwick Partners
†† Figures reflect acquisition revenue from former US units of Ward Howell International and Chartwell Partners
Source: Executive Recruiter News

WORKING BRIEFS

Europe behind rise in demand for executives, says survey

Demand for senior executives grew by 2 per cent in 1998 in spite of the economic turmoil in Asia and Latin America, according to a survey of some 3,700 clients of Korn/Ferry International.

Continuing strong demand in Europe and North America outstripped the fall in Asia and Latin America. European demand was particularly robust, growing by 19 per cent overall from 1997 to 1998. Much of this growth was at the end of the year when demand in the fourth quarter leaped 44 per cent compared to that in the third quarter.

The biggest demands were among industrial and financial services companies.

Korn/Ferry International, 0171 312 3195.

Companion to severance

In Hong Kong you must pay people two-thirds of one month's salary for each year of service. In Israel it's a month while Estonians expect two to four months' salary in severance pay depending on service.

Drake Beam Morin, the outplacement company has come up with a handy companion to the P45, containing many of the financial and legal implications of sacking people. Quaintly titled Separation Practices Around the World, the book is packed with easy to access tables, allowing managements an at-a-glance analysis of local dismissal requirements, severance pay formulas and minimum and maximum severance payments.

Details of economic trends, growth rates and unemployment rates will be equally useful for those thinking where to locate.

A second DBM booklet, The Realities of The 7Executive Job Search, provides a country by country analysis of the reasons behind executive sackings. Reorganisation or merger was the most frequently cited reason.

Different job search techniques are also compared. Networking is the best way of finding new work in Chile while up the road in Venezuela you are most likely to be headhunted.

The booklets, £75 and £50, can be obtained from Sarah Hargrove, 0171 556 4016

BANKING FINANCE & GENERAL APPOINTMENTS

Senior Emerging Markets Economist

This is an outstanding opportunity for an experienced individual to join the wholly-owned asset management arm of a major global banking group. The firm manages in excess of US$ 125bn, 80% of which is in fixed income or money market instruments, and has 650 employees world-wide.

Following the successful establishment of an Emerging Markets bond fund to complement the long standing equity portfolio, the group now seeks a Senior Emerging Markets Economist and Strategist based in London.

The Role

Reporting directly to the Global Head of Economics and Strategy the role encompasses the following:-

- Expanding the research capabilities in the investment strategy area. Communicate findings, provide advice to clients and colleagues and disseminate findings to other relevant parties.
- Representation on the Emerging Markets Asset Allocation Committee.
- Playing a key role in the sustained growth of the London office.

The Candidate

The successful candidate will have considerable expertise in development economics with a strong bias towards financial markets (bonds, currencies and stocks). This should be coupled with:-

- Solid knowledge of the institutional policy dynamics in Asia, Eastern Europe, Latin America, Middle East and Africa.
- An economics PhD or a highly relevant Masters and probably a 'quant' background, as extensive applied modelling experience is required.
- Maturity, credibility and a high degree of initiative to make a significant impact to the firm's Emerging Markets strategy.

The career prospects within this rapidly expanding group are excellent and the remuneration structure is extremely competitive. French language skills would be preferred.

Interested candidates should contact George Corbett at BBM Associates, 1 Bow Churchyard, Cheapside, London EC4M 9DQ.
Tel: 0171 945 3500 • Fax: 0171 945 3501 • E-mail: 514@bbm.co.uk

BBM ASSOCIATES

THE BANK OF NEW YORK

London - Canary Wharf

Interest Rate Derivative Sales

The Bank of New York, London branch, is seeking experienced salespeople to transact a broad range of interest rate derivative products with clients in the UK, Ireland and continental Europe.

Candidates must have a minimum of three years' experience in interest rate derivative sales and marketing within a major financial institution.

The Bank of New York is committed to building the world's leading securities servicing business. Our recent announcement of an agreement to purchase the Royal Bank of Scotland Trust Bank will give Bank of New York the leading position as global custodian and will provide a powerful boost to our presence in Europe.

Expansion of our financial markets activity in Europe is an equally important aspect of our future.

If you have the background, experience and drive to be part of this challenging opportunity in interest rate derivative sales, please write, with a copy of your curriculum vitae to:
Mark Boorman, Personnel Officer,
The Bank of New York,
46 Berkeley Street,
LONDON W1X 6AA

European Training Foundation

HEAD OF PLANNING

Annual net salary : +/- 50.000 EURO +additional allowances if applicable

to assist Management in the strategic and operational planning, budgeting and evaluation process. Reporting to the Director, he/she will head a unit of around 7 staff responsible for developing key aspects of the Foundation's strategic development as well as nurturing the Foundation's relationship with European Union institutions.

Responsibilities:
- overall coherence and effectiveness of the strategic planning, reporting and evaluation processes
- organising and facilitating the annual planning process
- setting up and running the Foundation's principal management reporting systems

Prospective applicants must have:
- a university degree with post-graduate business training in general management, management information systems, finance, auditing, management control or accounting
- at least 12 years relevant experience of which 5 years at least including responsibility for computerised budgeting and reporting as well as having staff management experience
- Fluency in one language (preferably English) of the European Union and knowledge of a second EU language.

Assets:
- Experience in financial management in international organisations
- experience in human resource development
- experience with countries in transition

Personal characteristics:
- Creative in the set-up and/or adaptation of reporting systems and making available information to meet the needs of decision makers
- Curious as to the causes behind observed facts and situations
- Rigorous and independent in the application of objective criteria to evaluation of performance
- Excellent communication and interpersonal skills

Prospective candidates should submit a detailed CV (maximum 2 pages) - preferably by fax - to Ms Nicole Poupart by 16 April 1999 at the latest. Only shortlisted candidates will be contacted. (Fax: 00-39-011-630.22.00)
Address: European Training Foundation, Villa Gualino, Viale Settimio Severo 65 - I-10133 Torino, fax: 00-39-011-630.22.00 - ETF Homepage: http://www.etf.eu.int

McKinsey & Company

Corporate Finance Research & Analysis

Develop and manage a leading-edge team across Europe

McKinsey and Company continues to build its Corporate Finance Practice in Europe and is now seeking to hire an exceptional individual who will build, develop and manage a team of specialist Corporate Finance research and analysis professionals.

Reporting to the Corporate Finance Practice Leader, the successful candidate will structure and develop a leading-edge Corporate Finance research and analysis capability to support the Corporate Finance team in all aspects of their work. Regular travel within Europe is anticipated.

Working with the Corporate Finance consultants, the role will focus on:

- building and managing a substantial research team based in four European centres
- coaching, training and motivating the team to develop industry-focused financial analysts and information specialists
- developing and maintaining financial analysis templates and models for the practice
- establishing the infrastructure for information sources
- building external networks to access specialty research
- developing internal relationships, both functionally and sectorally
- ensuring that quality standards are maintained and further enhanced.

You should have a strong track record in Corporate Finance and research in addition to proven management ability. You will probably be working within a top-tier financial institution, accounting firm, consultancy or specialist research group, with a very high analytical, quantitative and financial component in your career to date. You will also have good management and development skills, including the ability to personally manage projects and develop methodologies. Key criteria include:

- strong Corporate Finance analysis and research skills
- excellent coaching skills
- experience in building and managing significant teams
- a good first degree plus CFA, MBA or ACA qualification
- excellent verbal, written and presentation skills.

McKinsey is an exciting and supportive organisation which encourages outstanding personal and professional development. This challenging role offers high-calibre candidates the opportunity to develop and build a top-flight research function.

Interested and relevant candidates should forward a cv, quoting ref:183, to Rosie Robinson at Stephens Selection, 20 Cousin Lane, London EC4R 3TE (fax 0171 489 1130) or email robinson@stephens.co.uk

Alternatively, for an initial conversation in confidence, telephone Audrey Coates or Adrienne Hudson on 0171 651 0101.

EUROPEAN CENTRAL BANK

VACANCIES IN THE EUROPEAN CENTRAL BANK

The European Central Bank (ECB), established in Frankfurt am Main on *1 June 1998*, *is* urgently seeking applications *from suitably qualified* candidates to fill vacancies in its Directorate General for Payment Systems. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

POSITIONS AND QUALIFICATIONS

BUSINESS ANALYSTS IN PAYMENT SYSTEMS

The holders of this position, which is offered on a fixed-term contract basis, will work in the TARGET and Payment Processing Division, in a team which is in charge of the maintenance and upgrading of i) the *TARGET system* as a whole; ii) the payment application of the ECB which is connected to TARGET; and iii) all related applications and interfaces (in particular the S.W.I.F.T. Alliance). His/her major task will be to translate user requirements into *formally structured functional and detailed specifications.*

The candidate should have a good knowledge of payment systems, the security standards for these systems and an understanding of their IT environment.

Qualifications

- University degree in economics or an information systems related degree, or alternatively, equivalent experience.
- Experience of payment systems analysis and network services (in particular, systems based on S.W.I.F.T FIN). Experience in the field of IT security matters and/or testing in payment systems would be an advantage
- Ideally, basic knowledge of the specifications of the TARGET system.
- Familiarity with modern office equipment and personal computers.
- Very good command of English and proven drafting ability in English. Working knowledge of at least one other European *Union language* is required.

Ref: ECB/78/99/FT

SUPERVISORS IN PAYMENTS PROCESSING

The holders of this position will work in the TARGET and Payments Processing Division, as team leaders within the operational unit which is in charge of the processing of payments and managing TARGET operations. They *will supervise the execution of* payments made by the ECB on its own behalf and on behalf of a limited set of customers. They will also co-ordinate the daily operations of TARGET with the settlement managers of the central banks of the European Union. In addition, they will be required to make in-depth analysis of complex procedural and business issues linked to the functioning of TARGET, for the purpose of elaborating proposals for the ECB Management.

This position requires the ability to analyse complex technical and organisational situations very quickly, if necessary, and to negotiate with other central *banks under demanding conditions.*

These vacancies involve work in shifts.

Qualifications

- University degree in business management or information systems, or equivalent experience.
- *Good understanding of the* technical environment and business issues underlying payment systems, *including* S.W.I.F.T.; a background in wholesale banking, in back office operations and/or in correspondent banking would be an advantage.
- *Good analytical skills with the ability for defining* and using PC tools in reports *to assist management in high* level decision making.
- Management expertise and the ability to delegate.
- *Experience of working in an international environment.*
- Very good command of English and proven drafting ability in English. Working knowledge of at least one other European Union language is required.

Ref: ECB/79/99/FT

TARGET MONITORING EXPERTS

The holders of this position will work in the TARGET and Payments Processing Division, as experts in the daily monitoring of the TARGET *system. They will supervise the execution of payments made by the ECB on its own* behalf and on behalf of a limited set of customers. They will be in charge of customer support. They will also be in charge of running an Information and Help Desk for national central banks participating in TARGET. They may also be required to make in-depth analysis of complex procedural and business issues linked to the functioning of TARGET with a view to elaborating proposals for the ECB Management.

The position requires, from time to time, the ability to analyse complex technical and organisational situations *very quickly.*

These vacancies involve work in shifts.

Qualifications

- Good education, including graduate level studies.
- Good knowledge of payment processing procedures (S.W.I.F.T. and/or back-office experience in particular).
- *Ability to work in* a team.
- Familiarity with modern office equipment and personal computers.
- Very good command of English and proven drafting ability in English. Working knowledge of at least one *other European Union language is* required.

Ref: ECB/80/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph, *together with references confirming* the required experience and skills. They should quote the appropriate reference number and should be addressed *to the* **European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main,** and should reach us no later than 9 April 1999. Applications will be treated in the strictest confidence and will not be returned.

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To apply, please email finance@harveynash.com or visit http://taps.com/Harvey_Nash or write to Harvey Nash plc, 13 Bruton Street, London W1X 7AH. Please quote ref. FN4485FT and include your current CV with salary details. (Tel 0171 333 0033.)

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WALKER HAMILL

BARCLAYS GLOBAL INVESTORS

Barclays Global Investors is the world's largest manager of quantitative investment strategies with over £300 billion under *management for clients in 26 countries. Due to continued growth and expansion, they wish to appoint two high-calibre* experienced individuals to their Compliance Department. The specific roles will encompass the following duties:

Deputy Compliance Officer

- **Take responsibility and accountability for day to day monitoring activities, reporting results and implementing changes as a result of new regulations.**
- **Oversee and assist in monitoring work carried out by other compliance staff and provide support / *cover for the* Head of Compliance.**
- **Provide timely and proactive advice to staff throughout the business and act as the primary point *of contact for all* operations department issues (including custody).**
- ***Review and advise on marketing material and oversee Personal account dealings.***
- **Oversee training and competence arrangements and assist Heads of Department with the analysis and *implementation of regulatory developments and requirements.***

Candidates should have a proven track record in financial services compliance. working knowledge of IMRO and/or SFA regulations. Ability to deal effectively with all levels of staff, good communication / presentation / influencing skills and supervise their team where effective delegation and guidance is essential.

Compliance Associate

- **Co-ordinate and lead compliance visits from clients and liaise on all UK *regulatory reporting issues.***
- **Undertake certain monitoring activities and provide advice to staff on compliance issues.**
- ***Check and approve all staff personal account trading and take responsibility for advising* employees on training and competence matters.**

Candidates should have at least one year's experience of financial services compliance, knowledge of IMRO regulations with the ability to communicate at all levels.

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ABSOLUTE

EURO PRICES

EQUITIES

Dow disappointment weakens Europe

EUROPEAN OVERVIEW

By Vincent Boland

European equity markets closed slightly lower yesterday amid disappointment that the Dow Jones Industrial Average did not hold above the 10,000 level in early trading.

Renewed worries about the poor state of health of Europe's economy also resurfaced, prompted by the Federal Reserve's meeting later in the day to deliberate US interest rate policy.

Analysts said that while the European Central Bank may want to cut European rates, it was constrained by the continuing weakness of the euro.

After Monday's gains induced by mergers and acquisitions activity, the breakdown of some key deals hit confidence and was another reason to take modest profits. But the falls were modest, with losses of less than 0.5 per cent across the main markets.

The FTSE Eurotop 300 index fell 6.06 points to 1,250.71, while the FTSE Eurotop 100 index fell 8.94 to 2,903.26. The FTSE Ebloc index closed 2.58 lower at 1,022.26.

The luxury goods sector was one of the weakest performers. LVMH fell €9.50 to €233.50 and Christian Dior was €5.90 lower at €119 after Financière Agache, holding company for Bernard Arnault and main shareholder in both, issued €500m of bonds convertible into LVMH stock. Analysts said the dilutive effects of the issue had undermined LVMH shares.

The collapse of the merger between Viag and Alusuisse Lonza sparked differing reactions. Viag gained a further €2.50 to close at €513.50 and has added 7 per cent since it emerged at the weekend that the deal was in trouble. Alusuisse fell €20 to €1,022.32.

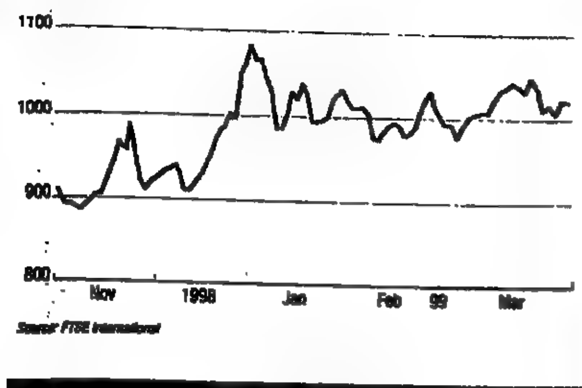
Among those merger battles still under way, Telecom Italia added 20 cents to €9.90, still a long way from the putative €11.50 a share being offered by Olivetti, which was unchanged at €2.90. British Telecom fell 30 cents to €14.93 as profit-takers emerged following Monday's good gains.

Speculation that the three-way French banking deal might see new developments helped Société Générale gain €5.90 to €173, while Paribas, with which it has proposed to merge, was €2.20 higher at €103.30.

BNP, which has made a hostile bid for both, added €1.20 to €78.65.

FTSE Eurobloc 100

Index



Source: FTSE International

■ THREE MONTH EUROBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2908.0	2903.0	-9.0	2912.0	2895.0	491	8411

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P
Apr	200	11	155	16	142	21	108	35	79	63	46	79	29	110	-	-
May	251	47	225	58	189	71	162	87	96	147	74	175	56	207	146	5

Est. vol total 2,082. Puts 0,011 [illegible]

OTHER INDICES

	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3530.73	3545.29	3483.15	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3523.24	3536.62	3468.15	3665.36	2419.23	3665.36	2419.23
MSCI Europe	(u)	1218.00	1217.87	1315.65	906.58	1315.65	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 30

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1250.71	-0.48	-6.06	2.04	4.89	1292.89
FTSE Eurotop 100	2903.26	-0.31	-8.94	2.02	11.30	1044.90
FTSE Eurobloc 100	1022.26	-0.25	-2.58	1.97	1.32	1039.01
FTSE Eurobloc	1225.85	-0.08	-0.99	2.91	5.77	1276.26
FTSE EuroMid Eurobloc	1107.18	+0.23	+2.76	2.57	2.91	1215.22
FTSE EuroMid Ex UK	1245.28	+0.17	+2.07	2.38	2.93	1271.35
FTSE Eurotop 300 Regions						
Eurobloc	1276.34	-0.27	-3.41	1.91	2.01	1305.73
UK	1230.99	-0.65	-8.24	2.49	9.80	1303.22
Europe Ex-Eurobloc	1235.26	-0.70	-8.70	2.18	7.58	1267.53
Europe Ex-UK	1352.27	-0.36	-4.81	1.60	2.01	1287.98
FTSE Eurotop Industry Sectors						
RESOURCES	1044.24	-0.70	-7.31	2.82	3.69	1095.65
Mining	970.47	-1.48	-14.34	3.79	21.37	1015.34
Oil & Gas	1007.98	-0.67	-6.75	2.78	2.82	1036.95
BASIC INDUSTRIES	1094.75	-0.20	-2.20	2.61	6.07	1124.41

[illegible]

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

BONDS

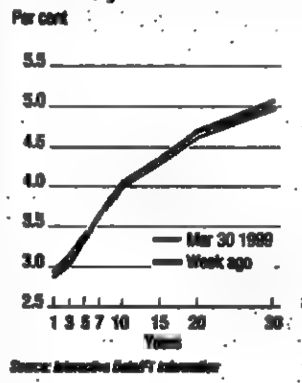
INTEREST RATE SWAPS

Mar 30	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	2.97	3.00	5.18	5.21	1.43	1.47	5.25	5.28	0.27	0.30
2 year	3.04	3.08	5.18	5.21	1.67	1.75	5.47	5.50	0.38	0.41
3 year	3.21	3.25	5.26	5.30	1.92	2.00	5.60	5.63	0.57	0.60
4 year	3.40	3.44	5.30	5.34	2.14	2.22	5.69	5.72	0.80	0.83
5 year	3.60	3.64	5.30	5.34	2.35	2.43	5.76	5.79	1.05	1.08
6 year	3.80	3.84	5.31	5.35	2.55	2.63	5.82	5.85	1.28	1.31
7 year	4.00	4.04	5.31	5.35	2.74	2.82	5.89	5.92	1.50	1.53
8 year	4.17	4.21	5.32	5.36	2.93	3.01	5.94	5.97	1.68	1.71
9 year	4.31	4.35	5.33	5.37	3.10	3.18	5.99	6.02	1.83	1.86
10 year	4.40	4.44	5.33	5.37	3.24	3.32	6.04	6.07	1.97	2.00
12 year	4.56	4.60	5.35	5.40	3.47	3.57	6.10	6.13	2.19	2.23
15 year	4.76	4.80	5.36	5.41	3.73	3.83	6.20	6.23	2.45	2.50
20 year	4.99	5.03	5.37	5.42	3.98	4.08	6.28	6.31	2.64	2.69
25 year	5.11	5.15	5.38	5.43	4.09	4.19	6.28	6.31	2.71	2.76
30 year	5.17	5.21	5.38	5.43	4.18	4.28	6.28	6.31	2.77	[illegible]

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

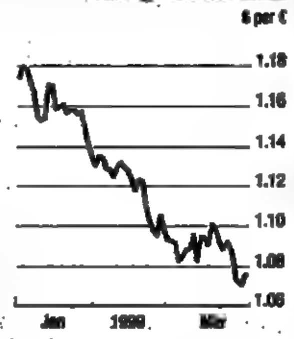
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Source: Interactive Data/FT Information

EURO-ZONE BONDS

[illegible]

Source: Interactive Data/FT Information.

Treasuries higher as FOMC meets

BENCHMARK BONDS

By John Labate in New York and Khozem Merchant in London

US Treasuries were mostly higher in early trading as the Federal Reserve's Open Market Committee met to decide interest rate policy.

European markets were quiet, distracted by discussions on interest rates in the US and events in Kosovo. Russian prime minister Yevgeny Primakov's talks with Slobodan Milosevic, the Serb leader, gave a little boost in late trading.

By late morning, as the Fed continued talks, the 30-year benchmark Treasury bond had gained ¾ to 94⅜, sending the yield down to 5.616 per cent. Among shorter-term issues 10-year notes were down 1/32 at 98¼, yielding 5.251 per cent, and two-year notes were off 1/32 at 99⅝, yielding 5.025 per cent.

The early rise at the long end of the curve was seen as a partial unwinding from Monday's sharp sell-off as buyers returned cautiously to the market. The recent flight to quality at the short end, triggered by concerns over Kosovo, had largely faded early yesterday.

"These flight to quality bids don't last and the Dow 10,000 put pressure on the [bond] market," said David Ging, market strategist at Donaldson, Lufkin & Jenrette in New York.

The release of the Conference Board's confidence index showed a rise of one point to 133.9, indicating slightly better sentiment about current and forthcoming conditions. The markets await several key reports later this week, including the employment survey on Friday.

European markets were "surprise-free," said Alison Cottrell at PaineWebber, "a continuation of the past few days".

The short end of the European yield curve, especially two-year paper, saw continued firmness in the expectation of interest rate cuts by the European Central Bank next month.

The ECB's case for cutting rates will have gained sharpness after the European Commission's downward revision yesterday of euro-zone gross domestic product growth forecasts for 1999.

The Commission cut its euro-zone growth forecast from 2.6 per cent to 2.2 per cent, in line with OECD forecasts, although some analysts still consider the number optimistic. In any case, it provided ammunition for those supporting a rate cut.

They also saw some hope in Hans Tietmeyer's comments late on Monday that "continuity does not signify immobility", which they interpreted as "not discouraging the expectation of a rate cut". This represents a subtle shift by officials over the past month as weaknesses have emerged in euro-zone economies.

Comments yesterday by Eugenio Domingo Solans, a member of the ECB, also pointed to an easing of monetary policy.

In Germany, the 10-year bund futures contract closed up at 113.80, after late gains, while in the cash market the yield on the 10-year bund was 4.04 per cent.

UK gilts ended up by a wafer. The June gilt future settled at 117, up slightly on the day in shallow trading.

In Japan, weak data helped Japanese government bonds rally as equities lost ground on the last but one day before the end-of-year reporting season, when the country's troubled banks must post capital adequacy ratios in line with international standards.

A strong stock market helps banks and others achieve healthier balance sheets.

Yesterday's data underlines the problems hitting the Japanese economy. There has been such an flood of weak data that JGBs have become immune to the flow. But the latest figures were so bad that government securities gained firmly.

Unemployment reached a record 4.6 per cent in February, up from 4.4 per cent in January, while household spending fell in February month-on-month, dropping to a 13-year low.

In Tokyo, the benchmark 10-year 203 JGB rallied by 7 basis points pushing the yield down to 1.58 per cent.

This performance, said Joanne Collins at Daiwa, "showed investors are prepared to buy into this markets ... demonstrating, too, no fear of what may happen to interest rates in the US".

ISE galvanises rivals nine months before opening

The prospects of an electronic options exchange in the US are already bringing big changes to the industry, writes Nikki Tait

The *International Securities Exchange* has yet to see a trade and is not expected to be up and running for nine months, yet prospects of the launch of an electronics exchange that would trade options on the 600 leading US stocks is bringing big changes to the US options industry.

Earlier this year, the American Stock Exchange, the number two player, cut its trading fees. The Chicago Board Options Exchange, the largest single options market, quickly followed suit, and is also considering its own electronic trading platform and modifying its trading structure. There is also talk of doing away with "grandfathered" options – contracts on some leading stocks on which the big options exchanges tacitly agree not to compete.

As with the futures industry in both Europe and the US, the very threat of screen-based trading seems to be galvanising existing players into action, even before the effectiveness of the competition has been demonstrated.

The ISE is a joint effort by a group of entrepreneurs, financial trading firms, and technology suppliers. Backers include E*Trade, the first online brokerage, whose founder Bill Porter will be its initial chairman, and Ameritrade, another player in the discount/online sector.

On the technology side, suppliers include Sweden's OM Gruppen, which is providing electronic trading software, and Compaq.

Details of ISE's plans have become available only recently, as documents describing its proposed operation have been filed with the Securities Exchange Commission.

About 30 contracts would be available when the ISE launches next January, and the number would then double each quarter. Members of the exchange would be split between primary market makers, obliged to support the market for at least 10 contracts and manage orders in their assigned options; ordinary marketmakers who would trade for their own account and maintain markets in a smaller number of assigned options; and an unlimited number of broker/dealers, known as "electronic access members".

Gary Katz, senior vice-president at the ISE and formerly with the New York Stock Exchange's options division, says the hope is that the main regulatory approvals will arrive by this summer. Technology development is under way, with the host system "well-advanced". The emphasis now is on development of the marketmaker workstations.

Funding efforts have also started. The ISE itself is said to be fully-funded, after founders raised just under $30m. However, Adirondack Trading Partners, the backers' private partnership that provided much of this money in exchange for memberships, now needs to sell these, and raise working capital. An additional $50m is probably required.

The big question, though, is whether the project will fly. Although parallels should not be pushed too far, the first electronic derivative exchange in the US – the Cantor Financial Futures Exchange – has had an extremely slow start.

For the most part the options trading community in Chicago, where the industry was born, seems ambivalent. "I think it will come down to an issue of critical mass," says an independent trader.

"There are some extreme naysayers – but I'd say it's the best thing that's happened to CBOE members," says another local. But he senses that some practioners are still reluctant to commit because of questions of access, rules and uncertainty over who the exchange's marketmakers will be.

Mr Katz, by contrast, is undaunted. "I think there's also a lot of interest . . . it feels right," he says. The ISE and Adirondack are expected to disclose the names of prospective marketmakers before the end of April, he says.

Even the ISE admits one challenge is the "best price" execution requirement, under which marketmakers must ensure orders are filled at the best price available from all four US options markets.

Since the ISE will be dealing solely in multiple listed options, and because there is no existing linkage system between the four open outcry options floors, this could make for some harried trading.

Mr Katz concedes that the need to match "away" markets is already a problem on some multiple listed contracts, adding that "it's also going to give customers a better, tighter market".

Financière Agache launches convertible

NEW ISSUES

By Bertrand Benoit

Financière Agache, the French holding company that controls luxury goods groups LVMH and Christian Dior, issued a five-year €500m convertible bond in a quiet market dominated by corporate issuers.

Some bankers said the issue was timed to take advantage of the publicity generated by LVMH's hostile bid for Gucci, the Italian fashion house. But Crédit Lyonnais, which managed the issue, said the offering was part of a routine refinancing operation.

Financière Agache holds the majority of voting rights in LVMH and is controlled by Bernard Arnault, the French financier.

The bonds carry a zero coupon and can be exchanged into LVMH equity at a 19.3 per cent premium to Monday's closing price of €243. The paper was priced at €290 and was trading between €293.50 and €295 yesterday.

GMAC, the financing arm of General Motors, took the unusual step of announcing two separate $1bn issues to be launched today.

The company will offer a five-year floating-rate bond and an eight-year fixed-rate bond, to be priced today. Bankers expected the floater to yield 25 to 30 basis points over Libor, with the fixed-rate note yielding 80 basis points over the off-the-run eight-year US Treasury.

"There has been a lot of issuance in the five-year and 10-year maturities," one banker said. "I guess offering rarer products, which also apply to the floating-rate bond, will help price them aggressively."

Argentina returned to the market for the third time since the Brazilian devaluation with a 10-year $1bn bond. This was the second high-profile offering by a Latin American country in two weeks, following Mexico's $1bn six-year bond last week.

Chase Securities, joint lead-manager with Goldman Sachs, said the bond was the first straight issue for Argentina since the crisis. Previous offerings have included options and warrants allowing investors to buy more bonds at a set price.

Chase said confidence in the region had been restored and investors did not need enhancements to buy the paper, but some bankers said the pricing was deliberately generous to attract investors in the quiet pre-Easter period.

The bond was priced to yield 690 basis points over the 10-year US Treasury and traded at the reoffer price. The issue was sold to 100 investors mostly in the US.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Republic of Argentina	1bn	11.75#	97.896	Apr 2009	0.75	+690(Nov08)	Chase/Goldman Sachs
EUROS(e)							
Financière Agache(a)§	500	zero	100.00	Apr 2004	-	-	Crédit Lyonnais
Sonera Group	300	4.625	99.272R	Apr 2009	0.40R	+58(3¾%Jan09)	Merrill/JP Morgan
Banca del Salento‡	200	(b)	100.00R	Apr 2001	0.20R	-	Deutsche/Rabobank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Each €290 bond exchangeable into one LVMH share. Redemption price: €324.15. Callable from 23/4/02, subject to 120% hurdle, at accreting value. b) 6-mth Euribor +40bp.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 30	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.4112	4.93	+0.10	-0.03	-0.07	-0.08
	08/08	8.750	123.1307	5.55	+0.08	+0.03	+0.05	-0.21
Austria	03/01	6.250	104.[illegible]	2.95	+0.05	-0.08	-0.37	-1.11
[illegible]								

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.42	94.55	+0.13	94.60	94.31	26,070	80,907
[illegible]							

LONG TERM EURO BOND OPTIONS (MATIF)

[illegible]

Germany

NOTIONAL EURO BOND FUTURES (EUREX) €100,000 100ths of 100%

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

[illegible]

UK

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE)

[illegible]

Euro

[illegible]

US CORPORATE BONDS

Mar 30	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.4004	5.74	+0.01	+0.01	+5.74
NY Tel	08/25	7.00	A+	98.1190	7.15	+0.02	+0.04	+1.51
[illegible]								

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Mar 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
US $								
EIB	04/07	7.250	AAA	108.3202	5.93	+0.06	-0.16	+0.73
ABN Amro	06/07	7.125	AA-	103.9722	6.48	+0.02	-0.06	+1.28
Quebec	01/07	7.000	A+	105.2702	6.14	-0.03	-0.07	+0.94
[illegible]								

UK BONDS

FTSE Actuaries Government Securities

UK Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Debate rages as euro stages recovery

MARKETS REPORT
By Alan Beattie

The debate continued to rage yesterday about the relative importance of Kosovo and euro-zone economic weakness in explaining recent falls in the euro.

The battered currency managed to struggle through yesterday without acquiring any more battle scars, and staged a recovery above the $1.07 level towards the end of European trading. But sentiment remained wary, and the continued high level of option volatilities suggested that uncertainty was likely to remain the chief characteristic of the euro in the near future.

The currency got a lift early in the London trading session, which some ascribed to a promise by Russian president Boris Yeltsin to refrain from military involvement and instead try to broker a peace deal.

The beginning of the US trading session then saw a sharp drop in the value of the currency as it dived back below $1.07. But by the end of London trading it had climbed back to $1.076.

■ There was little fresh bad news to justify more euro weakness yesterday, with markets focusing more on the forthcoming Federal Reserve meeting.

The European Commission downgraded its forecast for euro-zone economic growth in 1999 by 0.4 percentage points to 2.2 per cent.

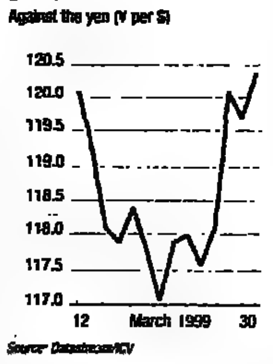
But the news had little impact on the market. "The Commission's forecasts are always far too optimistic and it has been well flagged that they were to be revised down," said Steve Barrow, currency analyst at Bear Stearns in London.

"This is just more evidence that the Commission follows the private sector and other governmental organisations in making forecasts," he added.

Mr Barrow, speaking around the middle of the London session before the euro started its rally, said that it was looking a little oversold and might stage a near-term recovery. "If any positive news emerges on the Kosovo situation, the euro could snap back sharply," he said.

One analyst claimed that it was just such a rumour in the market which caused yesterday's recovery in the euro.

A story that the Russian prime minister Yevgeny Primakov had managed to bring Serbia towards a deal gained wide circulation among traders and boosted the currency, he said.



■ As the dearth of news gave the market some respite, it turned its attention to the Federal Reserve meeting after the end of European trading.

Few expected an interest rate rise, though some thought the Fed would announce a tightening bias.

"The Fed is unique among major central banks in being the only one even considering a rise in interest rates," said Ravi Bulchandani, senior currency economist at Morgan Stanley Dean Witter in London. He said that unlike earlier occasions, a move towards tightening might boost the dollar.

"The previous tightening cycle started in 1994, but it failed to help the dollar then because of a sell-off in the equity market," he said. "This time round, share price strength means that it may be regarded as dollar supportive."

■ The dollar pushed higher against the yen yesterday as rumours of capital flows in the last few days of the fiscal year added to fundamental considerations.

The dollar closed in London at Y120.4 against the yen, higher than its closing values in recent weeks.

"There are stories that Japanese banks have $2-3bn of dollars to be bought before the year end," said one analyst. "So anyone believing those rumours might also want to be long dollars. But a sell-off of those positions could mean that the dollar drops back down," he said.

Meanwhile more bad news on the Japanese economy gave a good explanation to those seeking fundamental reasons for the movement. Unemployment rose in February to 4.6 per cent, which could have been expected as corporate restructuring got under way. But more worrying was the decline in households' propensity to consume, which fell to a record 67.8 per cent of disposable income.

■ POUND IN NEW YORK

Mar 30	Latest	Prev. close
£ spot	1.6125	1.6145
1 mth	1.6120	1.6140
3 mth	1.6116	1.6136
1 yr	1.6146	1.6170

■ OTHER CURRENCIES

Mar 30	£	$
Czech Rp	57.4815 - 57.5814	35.6338 - 35.6748
Hungary	382.605 - 383.233	237.190 - 237.490
Iran	4943.32 - 4926.69	3000.00 - 3000.00
Kuwait	0.4530 - 0.4923	0.3050 - 0.3053
Peru	5.3945 - 5.4048	3.3440 - 3.3480
Poland	6.3721 - 6.3918	3.9500 - 3.9600
Russia	39.6347 - 40.1104	24.6000 - 24.8500
UAE	5.9250 - 5.9275	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
[illegible]													
Singapore	(S$)	2.7973	-0.0077	957 - 988	2.8035	2.7939	2.7896	3.3	2.7785	3.1	2.7331	2.3	-
South Africa	(R)	10.0289	-0.0550	099 - 478	10.0720	10.0086	10.1138	-10.1	10.2801	-9.2	10.8821	-8.8	-
South Korea	(Won)	1976.16	-6.7900	375 - 958	1980.27	1972.71	-	-	-	-	-	-	-
Taiwan	(T$)	[illegible]	-0.1722	282 - 861	53.5742	53.4019	53.675	-3.7	53.9200	-3.1	54.7357	-2.3	-
Thailand	(Bt)	60.7378	-0.1821	563 - 193	60.9490	60.5470	60.72	0.4	60.6790	-0.9	62.3088	-2.6	-

† Rates for Mar 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 30		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
[illegible]													
Singapore	(S$)	1.7305	+0.0005	330 - 340	[illegible]								
South Africa	(R)	6.2150	-0.0150	050 - 250	[illegible]								
South Korea	(Won)	1224.85	-0.4500	350 - 500	[illegible]								
Taiwan	(T$)	33.1900	-0.0050	[illegible]	[illegible]								
Thailand	(Bt)	37.6400	+0.0150	000 - 800	[illegible]								

† SDR rate per $ for Mar 29. ‡ Official rate set by Malaysian government. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. [illegible] The exchange rates printed in this table are also available on the internet at http://www.FT.com.

WORLD INTEREST RATES

MONEY RATES

Mar 30	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	5	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London Interbank Fixing	-	[illegible]	5	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.74	4.77	4.81	4.95	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	3	3	[illegible]	[illegible]	-	-	-
Euro Euribor	-	2.998	2.981	2.956	2.978	-	-	-
EONIA	2.98	-	-	-	-	-	-	-
EURONIA	2.9812	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 30	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	2 - [illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.180	97.175	+0.025	97.180	97.150	5,357	40,297
Sep	97.175	97.205	+0.030	97.215	97.175	3,538	30,173

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.155	97.175	+0.020	97.180	97.145	44239	207150
Sep	97.180	97.205	+0.025	97.220	97.180	37783	190574
Dec	96.975	96.990	+0.025	97.000	96.960	11497	106030
Mar	97.095	97.125	+0.035	97.140	97.090	17912	94830

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.160	97.175	+0.020	97.170	97.160	1556	106093
Sep	97.190	97.205	+0.025	97.190	97.190	100	100318
Dec		96.990	+0.025			0	83395
Mar	97.095	97.125	+0.035	97.125	97.095	42	84144

■ EURIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97125	0.105				0.055			
97250	0.050	0.105	0.090	0.140	0.125	0.150	0.350	0.270
97375	0.020				0.220			
97500	0.005	0.030	0.040	0.075	0.330	0.325	0.550	0.450

Est. vol. total, Calls 39854 Puts 7830. Previous day's open int., Calls 320318 Puts 114280

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97125	0.105				0.055			
97250	0.050	0.105	0.090	0.140	0.125	0.150	0.350	0.270
97375	0.020				0.220			
97500	0.005	0.030	0.040	0.075	0.330	0.325	0.550	0.450

Est. vol. total, Calls 645 Puts 800. Previous day's open int., Calls 162488 Puts 95870

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.740	98.730	-0.010	98.760	98.720	12096	112872
Sep	98.630	98.640	+0.010	98.670	98.630	7664	58464
Dec	98.310	98.310	+0	98.330	98.300	1168	19280
Mar	98.340	98.350	+0	98.360	98.340	704	11105

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.77	-0.03			0	n/a
Sep		99.70	-0.05			0	n/a
Dec		99.47	-0.05			0	n/a

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
98750	0.135	0.160	0.130	0.155	0.270	0.570
98875	0.075			0.220		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3530 Puts 3580

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 30		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.42	16.26	4.848	1.952	4800	5.463	20.71	497.0	412.5	22.19	3.960	1.653	4.035	2.668	321.3	2.479
Denmark	(DKr)	54.30	10	8.829	2.632	1.060	2606	2.966	11.25	269.8	223.9	12.05	2.150	0.898	2.191	1.449	174.5	1.346
France*	(FFr)	61.50	11.33	10	2.982	1.201	2952	3.360	12.74	305.6	253.7	13.65	2.435	1.017	2.482	1.641	197.6	1.525
Germany*	(DM)	20.63	3.799	3.354	1	0.403	990.0	1.127	4.272	102.5	85.07	4.576	0.817	0.341	0.832	0.550	66.27	0.511
Ireland*	(I£)	51.22	9.434	8.329	2.483	1	2459	2.798	10.61	254.6	211.3	11.37	2.028	0.847	2.067	1.367	164.6	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.431	10.35	8.593	0.462	0.083	0.034	0.084	0.056	6.694	0.052
Netherlands*	(Fl)	18.31	3.371	2.977	0.888	0.357	878.6	1	3.791	90.97	75.50	4.062	0.725	0.303	0.739	0.488	58.82	0.454
Norway	(NKr)	48.28	8.893	7.851	2.341	0.943	2318	2.638	10	240.0	199.2	10.71	1.912	0.798	1.948	1.288	155.1	1.197
Portugal*	(Es)	20.12	3.705	3.272	0.976	0.393	965.8	1.099	4.167	100	82.99	4.465	0.797	0.333	0.812	0.537	64.65	0.499
Spain*	(Pta)	24.24	4.465	3.942	1.175	0.473	1164	1.324	5.021	120.5	100	5.380	0.960	0.401	0.978	0.647	77.90	0.601
Sweden	(SKr)	45.07	8.301	7.328	2.185	0.880	2163	2.462	9.334	224.0	185.9	10	1.785	0.745	1.819	1.202	144.8	1.117
Switzerland	(SFr)	25.25	4.651	4.106	1.224	0.493	1212	1.380	5.230	125.5	104.2	5.603	1	0.418	1.019	0.674	81.14	0.626
UK	(£)	60.49	11.14	9.836	2.933	1.181	2903	3.304	12.53	300.6	249.5	13.42	2.395	1	2.441	1.614	194.4	1.499
Canada	(C$)	24.78	4.564	4.030	1.202	0.484	1190	1.354	5.133	123.2	102.2	5.499	0.981	0.410	1	0.661	79.63	0.614
USA	($)	37.48	6.904	6.095	1.817	0.732	1799	2.048	7.763	186.3	154.6	8.317	1.484	0.620	1.513	1	120.4	0.929
Japan	(Y)	31.12	5.732	5.061	1.509	0.608	1494	1.700	6.445	154.7	128.4	6.906	1.232	0.515	1.256	0.830	100	0.772
Euro	(€)	40.34	7.430	6.560	1.956	0.788	1936	2.204	8.355	200.5	166.4	8.951	1.597	0.667	1.628	1.076	129.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5510	0.5513	-0.0001	0.5524	0.5493	7,020	34,329
Sep	-	0.5545	-	-	-	5	1,250
Dec	-	0.5577	-	-	-	60	181

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8400	0.8383	-0.0027	0.8427	0.8369	17,508	82,515
Sep	0.8495	0.8488	-0.0018	0.8498	0.8490	65	1,651
Dec	-	0.8617	-	-	-	5	402

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6788	0.6779	-0.0014	0.6797	0.6765	15,863	64,802
Sep	0.6839	0.6844	-0.0013	0.6844	0.6830	3	496
Dec	0.6915	0.6908	-0.0016	0.6915	0.6905	7	6

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6150	1.6116	-0.0040	1.6172	1.6102	7,956	53,317
Sep	-	1.6130	-0.0030	-	1.6100	54	1,338
Dec	-	1.6130	-0.0040	-	1.6120	30	30

UK INTEREST RATES

LONDON MONEY RATES

Mar 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	[illegible]	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 12, 4.8934pc. ECGD fixed rate Stg. Export Finance. Make up day Mar 31, 1999. Agreed rate for period Apr 26, 1999 to May 25, 1999, Scheme III 6.65pc. Reference rate for period Feb 27, 1999 to Mar 31, 1999, Schemes IV & V 5.410pc. Finance House Base Rate 5.5pc for Apr 1999

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.020	95.000	-0.020	95.020	94.990	10573	181805
Sep	95.100	95.080	-0.030	95.110	95.070	13712	191415
Dec	94.860	94.840	-0.020	[illegible]	94.840	4613	141566
Mar	94.970	94.950	-0.020	94.980	94.950	6186	132910
Jun	94.900	94.870	-0.015	94.900	94.860	5657	108484

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
[illegible]						

Est. vol. total, Calls 4800 Puts 7525. Previous day's open int., Calls 422068 Puts 465650

EMS EUROPEAN CURRENCY UNIT RATES

Mar 30	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	325.10	-0.8	-7.93	8.20	53
Denmark	7.46038	7.4317	+0.0001	-0.38	0.00	3
NON ERM MEMBERS						
UK	0.653644	0.66380	+0.0023	1.55	-1.81	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 16/3/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.620	1.13	1.78	2.21	0.99	1.66	2.15
1.630	0.74	1.22	1.80	1.54	2.22	2.60
1.640	0.33	0.97	1.18	2.23	2.80	3.30

Previous day's vol., Calls 10 Puts 2. Prev. day's open int., Calls 842 Puts 1,373

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
0.555	0.60	0.55	0.77	0.46	0.94	1.08
0.560	0.30	0.38	0.58	0.75	1.25	1.36
[illegible]	0.18	0.28	0.44	1.11	-	-

Previous day's vol., Calls 0 Puts 0. Prev. day's open int., Calls 125 Puts 115

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.98	94.98	-0.01	94.99	94.97	47,132	452,953
Sep	94.91	94.91	-	94.92	94.88	72,694	452,050
Dec	94.54	94.54	+0.01	94.62	94.51	26,915	349,768

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.64	95.64	-0.08	95.66	95.64	[illegible]	1,512

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.00	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

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COMMODITIES & AGRICULTURE

Cobalt group signs up London marketing agent

By Paul Solman

MRG Cobalt Sales, the London-based metals trading firm, has become the exclusive cobalt marketing agent for Gecamines, the Democratic Republic of Congo's state-owned mining group.

MRG confirmed yesterday it had become the exclusive agent for Gecamines, one of the largest producers of the blue metal, but declined to give further details.

Meanwhile, Gecamines said it had ended all existing marketing deals with other agents throughout the world. "MRG Cobalt Sales are Gecamines' exclusive worldwide cobalt sales agents. Their appointment is for an initial period of three years," it said.

The announcement follows a deal in January between MRG, Gecamines and Ridgepoint Overseas Development, the Zimbabwean company that controls 80 per cent of Gecamines' assets, appointing MRG as cobalt agent for the two companies.

Cobalt prices trebled to about $18 a pound after that deal was announced, on suggestions that MRG had cornered the market for the metal, possibly controlling a third of supplies.

Last October MRG signed a similar agreement with ZCCM, the Zambian mining group, giving it exclusive rights to market ZCCM's cobalt except in Japan, France and Switzerland.

Together, Gecamines and ZCCM account for about 30 per cent of world supplies of the metal, providing about 8,400 tonnes last year.

MRG has previously denied it has attempted to build a dominant position in the cobalt market, or that it has deliberately accumulated cobalt.

Cobalt, which gives blue glass its distinctive colour but is also used in superalloys, batteries and tyres, is traded openly between buyers and seller rather than through an exchange.

The metal is a by-product of nickel, and supplies have been squeezed in recent months by delays in exports from Russia's Norilsk, which has cut nickel production because of falling prices.

Producers in Canada have also run down stocks. Benchmark prices remained steady yesterday at $16 a pound.

Cameroon puts forests at risk

The largest producer of logs in Africa is running out fast, writes **John Madeley**

The battered wreck of a small vehicle on the main road east of Yaounde is all that remains of a crash caused by an unlit logging truck. Three people working for the WWF, the non-governmental organisation specialising in wildlife, monitoring the effects of widespread logging in Cameroon, died as their car collided at night with a truck carrying huge logs.

Cameroon is now the largest producer of logs in Africa, and there is little forest that has not been logged. The region's tropical forest is the second largest in the world, "but it is disappearing in front of our eyes, most particularly in Cameroon", said Pierre de Maret, director of an European Commission-funded project on tropical forest people. He believes Cameroon's forest is being exploited at a faster rate than is sustainable.

In 1997, Cameroon produced 3m cubic metres of timber, according to the International Tropical Timber Organisation, 10 per cent more than in 1996. Neighbouring Gabon produced 2.5m cubic metres in 1997, the second highest in Africa.

High levels of corruption is one factor exacerbating the problem. The NGO, Transparency International, ranked Cameroon as the most corrupt of 85 countries studied in a recent survey.

Concessions to exploit the forests are awarded through a bidding system, with most concessions in Cameroon granted to the company prepared to offer the highest financial inducements to officials rather than the highest bidder. "The system works against more responsible companies", says an aid worker.

At a recent central African summit meeting on tropical forests, Chief Emeka Anyaoku, secretary-general of the Commonwealth, and a member of the World Commission on Forests and Sustainable Development, warned of the "debilitating effects of corruption in the forest sector".

Corruption often meant companies that are not performing well are given logging concessions, he said, and there is little inspection of what they are doing. The monitoring side of forest management needs to be stepped up, he said.

Leaders of six central African countries recently approved the "Yaoundé Declaration", which aims to create areas of protected forests. While the declaration is a high-level commitment to forest conservation, it does not mention corruption, referring only to taking "concerted efforts to stamp out poaching and any other non-sustainable exploitation in the sub-region".

The EC's aid projects in the region emphasise conservation and sustainable use of forest, with the involvement of local people. But with such efforts in danger of being undermined by corruption, the Commission, like other aid donors, is now making it clear that aid could be at stake unless steps are taken to stamp out cases of corruption.

Although the government plans to ban exports of raw logs, this is unlikely to stop the logging

Logging is selective and often hidden. Due to the patchy quality of the forests, operators usually take the most valuable tree but the environmental damage of this practice is severe.

"In dragging out this tree, about 10 per cent of the forest may be damaged," said Hans-Peter Schadek of the European Commission, the main funder of forest conservation projects in central Africa.

On the surface, there may be a respite of the logging in the country due to the financial crisis in Asia and an export ban by the Cameroon government of raw logs.

While European logging companies have long been active in central Africa, Asian logging companies also became prominent in the early 1990s. Asian involvement eased off considerably last year, with the financial crisis leading to lower demand, but this may only be temporary, as demand is expected to pick up over the next few years.

And although from the end of June this year, the Cameroon government plans to ban the export of raw logs, this is unlikely to stop the logging. Almost 60 per cent of the country's logs are exported.

The government's motivation for the ban is primarily to help the country's sawmilling industry rather than reduce the production of logs. It then hopes to increase exports of processed sawn wood and veneers.

Meanwhile, Cameroon's logging has had other effects on the environment. It has been accompanied by growing illegal poaching and "bushmeat" trade as the forests have become more accessible. Poachers are shooting antelope, chimpanzees and even gorillas for sale in towns and cities.

Malaysia plans GM palm oil

By T.J. Tan in Kuala Lumpur

Five years after the US began to produce genetically modified soya beans and rapeseed commercially, Malaysia is engineering the oil palm to compete in the global fats and oils market.

The state-run Palm Oil Research Institute of Malaysia (PORIM) is modifying the oil palm to produce more oleic acid in order to create more palm olein, the main type of refined palm oil purchased by such important buyers as India and China and used as cooking oil.

A mono-unsaturated fatty acid, oleic acid is found in large quantities in olive oil, which has shown an ability to ward off heart disease in Mediterranean countries.

PORIM hopes to raise the oleic acid content from 39 per cent to more than 80 per cent. This will lower the melting point and allow palm oil, which clouds at low temperatures, to be sold as salad oil in cold countries.

"We have to develop a capability to compete in the oils and fats markets worldwide," said Suan-Choo Cheah, molecular biologist at PORIM.

However, field trials of GM oil palm are at least five years away, and commercial testing and production perhaps another 10, said Dr Cheah.

GM crops are a means of helping Malaysia overcome labour shortages and lack of suitable land for expanding oil palm cultivation.

Oil palm is also being modified to produce more stearic acid for use as a cocoa butter substitute to make chocolates and personal care products, such as lotions, shaving cream and rubbing oils.

Meanwhile, with the Massachusetts Institute of Technology in the US, PORIM hopes to engineer the oil palm to produce bio-degradable plastics.

Scientists at Stanford University in California have successfully modified Arabidopsis Thaliana, the laboratory model plant to produce the chemical.

Of the world's oil crops, oil palm has the greatest potential for the commercial production of bio-degradable plastics as it is the most efficient producer of vegetable oil per hectare, said PORIM.

Oleic acid is also useful as an oleochemical – chemicals derived from oils and fats and used as industrial feedstock and in the food industry – demand for which is growing rapidly.

PORIM believes that oleochemicals derived from palm oil will help meet future shortages. The supply of lauric oil, which is derived from coconuts and palm kernel and is the traditional source of oleochemicals, is limited, it said.

Rapeseed has been engineered to produce more lauric oil, but the crop is not as high yielding as oil palm.

Crude oil retreats from early gains

MARKETS REPORT

By Paul Solman

Crude oil prices rose sharply yesterday, reaching $14.85 a barrel in London at one stage before falling back.

Dealers cited profit-taking as traders rushed to take advantage of the strongest oil prices since the beginning of October.

In late trading on the International Petroleum Exchange, the bellwether May contract for Brent blend was $14.54 against Monday's close of $14.58.

Prices also rose in the US, with the benchmark crude contract on the New York Mercantile Exchange rising to $16.56 a barrel before settling back to $16.31 in afternoon trading. Monday's close was $16.44.

The market was awaiting the weekly inventory data from the American Petroleum Institute, due late last night.

Base metals fell again on the London Metal Exchange, with nickel once again leading the decline. At the close, three-month nickel was $4,860 a tonne, a fall of more than 3 per cent and $200 off from the previous close. It fell $105 on Monday.

The LME's flagship copper contract, meanwhile, dropped $34 to finish yesterday at $1,386.50, while aluminium closed at $1,223.50, down $22 on the day.

Nigeria's mid-season cocoa harvest is expected to start earlier than usual this season because of good weather. Traders said the harvest would begin in April instead of May, and the crop was likely to be much larger than last year, possibly as much as 25,000 tonnes against last time's 15,000.

May cocoa finished yesterday up £4 at £825 a tonne on the London International Financial Futures and Options Exchange.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1196-7	1222-3
Previous	1220.5-21.5	1245-45.5
High/low		1235/1216
AM Official	1196-7	1221-2
Kerb close		1223-4
Open int.	224,187	
Total daily turnover	53,565	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1090-5	1116-8
Previous	1120-25	1145-48
High/low		1137/1128
AM Official	1110-2	1134-6
Kerb close		1116-20
Open int.	9,217	
Total daily turnover	1,952	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	508-9	511-2
Previous	518.5-9.5	520-20.5
High/low		517/510
AM Official	509.5-10.0	511.5-2.0
Kerb close		510-11
Open int.	38,821	
Total daily turnover	9,607	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4790-800	4870-75
Previous	4980-90	5055-60
High/low		5035/4860
AM Official	4830-40	4910-15
Kerb close		5865-70
Open int.	74,207	
Total daily turnover	19,905	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5240-50	5220-25
Previous	5300-10	5270-75
High/low		5250/5200
AM Official	5265-70	5230-35
Kerb close		5220-25
Open int.	20,145	
Total daily turnover	4,075	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	987.5-8.5	1006-7
Previous	1037-38	1053-54
High/low		1049/994
AM Official	[illegible]	984-5
Kerb close		996-9
Open int.	95,538	
Total daily turnover	31,557	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1361-2	1390-1
Previous	1391.5-92.5	1420-20.5
High/low		1400/1385
AM Official	1361-1.5	1390-1
Kerb close		1387-8
Open int.	174,071	
Total daily turnover	32,316	

■ LME AM Official £/$ rate: 1.6149
LME Closing £/$ rate: 1.6120

Spot: 1.6119 3 mths: 1.6110 6 mths: 1.6114 9 mths: 1.6125

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	61.40	-0.50	62.20	61.40	576	3,686
May	62.10	-0.35	62.90	61.80	14,112	35,830
Jun	62.40	-0.50	63.25	62.40	76	2,058
Jul	63.00	-0.30	63.80	62.70	1,013	9,896
Aug	63.30	-0.35	64.10	63.30	28	1,554
Sep	63.65	-0.40	64.45	63.65	295	5,090
Total					17,227	72,202

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	279.80-280.10		
Opening	280.20-280.50		
Morning fix	280.050	173.191	261.119
Afternoon fix	279.600	173.352	260.093
Day's High	280.25-280.55		
Day's Low	279.30-279.60		
Previous close	280.90-281.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.08	6 months	4.04
2 months	4.08	12 months	3.71
3 months	4.07		

Silver Fix	p/troy oz.	US cts equiv
Spot	316.327	511.500

Silver Lending Rates

1 month	2.75	6 months	1.25
2 months	2.25	12 months	0.80
3 months	2.00		

Gold Coins	$ price	£ equiv.
Krugerrand	281-285	174-176
New Sovereign	65-69	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	279.0	-1.3	280.5	279.0	13,118	7,517
May		-			5	-
Jun	281.2	-1.1	282.5	281.2	26,784	108.1k
Aug	283.5	-0.8	284.1	283.7	269	9,252
Oct	290.0	-	290.0	285.5	645	3,195
Dec	287.5	-0.7	288.0	287.0	201	15,708
Total					41,059	184,425

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	357.5	-1.6	359.5	355.0	3,080	2,458
Jul	361.5	-	364.5	358.5	5,128	11,011
Oct	361.0	-	361.0	359.5	25	1,134
Total					8,238	14,727

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	360.00	-2.75	362.00	357.50	130	2,641
Sep	-	-	-	-	20	224
Dec	-	-	-	-	-	126
Total					130	3,018

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	502.5	-9.0	512.0	500.0	12,013	39,128
Jul	505.5	-8.9	513.0	504.0	1,863	16,167
Sep	507.0	-9.4	510.5	507.5	370	3,983
Dec	509.0	-8.8	518.0	507.0	152	9,004
Jan	-	-	-	-	-	14
Mar	512.0	-6.7	512.0	512.0	15	2,268
Total					14,666	75,602

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	16.31	-0.13	16.56	16.17	61,730	152.8k
Jun	16.32	-0.09	16.52	16.18	28,165	94,287
Jul	16.29	-0.08	16.44	16.17	14,609	56,076
Aug	16.18	-0.09	16.32	16.10	3,149	29,178
Sep	16.05	-	16.21	16.03	1,891	21,202
Oct	16.03	-0.08	16.13	16.03	1,871	19,108
Total					124,846	608,246

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
May	14.54	-0.04	14.86	14.46	13,361	74,716
Jun	14.53	+0.02	14.70	14.44	8,539	74,289
Jul	14.45	+0.02	14.60	14.41	3,391	29,179
Aug	14.42	+0.04	14.55	14.38	951	9,962
Sep	14.40	+0.05	14.52	14.40	1,042	15,553
Oct	14.38	+0.05	14.50	14.37	952	7,718
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	43.30	+0.10	43.30	42.45	16,517	15,461
May	43.00	-0.26	43.50	42.50	13,929	39,792
Jun	43.20	-0.16	43.36	42.70	5,338	22,465
Jul	43.25	-0.41	43.70	43.15	4,239	17,625
Aug	43.95	-0.21	43.95	43.65	2,628	15,785
Sep	44.65	-0.11	44.65	44.40	1,067	9,081
Total					49,947	174,483

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	130.50	+0.50	132.75	130.00	7,267	27,162
May	129.50	+1.00	131.50	128.75	6,750	34,592
Jun	129.00	+1.25	130.75	128.75	3,331	22,250
Jul	130.25	+1.50	131.50	130.00	298	9,952
Aug	131.50	+1.50	131.75	131.25	155	7,202
Sep	133.00	+1.25	133.25	133.00	57	7,472
Total					22,000	155,389

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	9.350	-0.110	9.350	9.250	20	2,910
May	9.350	-0.060	9.350	9.350	25	2,335
Total					1,620	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
May	1.950	+0.075	1.960	1.856	24,498	38,955
Jun	1.985	+0.065	1.990	1.900	5,836	19,938
Jul	2.015	+0.065	2.015	1.932	2,871	18,229
Aug	2.030	+0.055	2.030	1.955	1,189	15,382
Sep	2.055	+0.055	2.055	1.980	484	15,468
Oct	2.085	+0.045	2.090	2.030	2,151	14,246
Total					105,759	270,830

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	51.25	-0.45	51.99	50.75	18,585	15,511
May	51.80	-0.41	52.65	51.40	16,449	38,706
Jun	51.90	-0.38	52.50	51.50	7,455	22,382
Jul	51.55	-0.34	51.95	51.30	3,515	18,008
Aug	50.80	-0.39	51.10	50.75	3,037	5,426
Sep	49.85	-0.34	50.10	49.80	876	3,605
Total					53,519	114,060

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	74.75	+0.85	74.75	74.00	145	3,012
Jul	76.50	+0.75	76.50	76.75	155	2,106
Sep	-	-	-	-	-	178
Nov	77.25	+0.75	77.25	77.25	5	3,030
Jan	79.00	+0.60	79.00	79.00	50	550
Mar	81.00	+0.60	81.00	81.00	25	94
Total					380	8,970

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	296.00	+1.75	297.00	289.25	9,020	41,020
Jul	306.00	+2.00	306.50	301.50	18,360	51,280
Sep	316.00	+1.50	316.50	312.00	745	6,415
Dec	329.00	+0.50	330.00	325.50	873	13,817
Mar	336.50	-1.00	338.00	336.00	47	2,983
Jul	345.00	-	345.00	341.00	95	163
Total					30,816	114,284

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	233.75	+1.75	234.25	230.25	16,320	128,255
Jul	238.75	-	240.25	236.50	10,648	109,478
Sep	243.25	-	244.50	241.25	1,107	25,358
Dec	249.75	-	251.00	247.75	6,669	80,186
Mar	256.75	-	257.75	255.50	371	12,687
May	260.25	-0.25	261.00	259.50	15	1,060
Total					42,015	361,580

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	-	-	-	-	-	158
Sep	-	-	-	-	-	35
Nov	-	-	-	-	-	380
Jan	-	-	-	-	-	20
Mar	-	-	-	-	-	-
Total					-	593

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	501.50	-	502.50	495.00	18,316	58,127
Jul	510.00	-	511.00	501.50	4,633	46,665
Aug	513.00	+5.25	513.25	505.00	447	14,475
Sep	515.00	+6.75	515.00	507.00	398	6,990
Nov	522.50	+6.50	523.50	515.00	4,172	32,326
Jan	532.00	+5.50	532.00	525.00	110	1,436
Total					31,749	182,446

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	19.72	+0.16	19.78	19.60	4,173	43,327
Jul	19.99	+0.16	20.07	19.84	1,742	33,512
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	290.0	-4.0	290.0	290.0	191	541
May	290.0	-10.0	297.0	288.9	31	181
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					277	914

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					141	2,267

PULP AND PAPER

■ PULPEX OMLX (US$, 24 air dry tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	455.00	-			-	550
Sep	474.50	-			-	129
Total					-	709

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	825	+4	827	818	1,912	47,720
Jul	840	+2	841	834	1,528	16,540
Sep	[illegible]	+5	862	852	343	27,731
Dec	882	+5	888	874	227	26,573
Mar	901	+2	904	901	28	16,024
May	925	+5	925	925	5	17,002
Total					4,071	182,580

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1186	-7	1189	1181	3,429	25,526
Jul	1210	-	1216	1210	779	15,326
Sep	1239	-	1243	1238	61	8,929
Dec	1277	-	1277	1274	79	6,166
Mar	1312	-	1318	1311	398	5,687
Total					4,346	67,176

■ COCOA (ICCO) (SDR's/tonne)

Mar 29	Price	Prev. day
Daily	946.79	938.46

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1810	+36	1810	1750	393	2,493
May	1564	+29	1575	1550	3,707	28,492
Jul	1571	+32	1578	1560	1,952	15,256
Sep	1585	+38	1586	1570	664	6,528
Nov	1590	+38	1593	1578	276	1,867
Jan	1593	+42	1593	1581	88	476
Total					7,080	56,346

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	111.25	-1.55	112.80	109.80	21,530	21,817
Jul	112.50	-1.55	114.50	111.80	6,197	10,757
Sep	114.10	-	115.30	113.50	1,263	5,700
Dec	116.50	-	116.00	115.00	472	3,161
Mar	116.00	-1.75	116.50	116.00	21	893
Total					29,583	42,880

■ COFFEE (ICO) (US cents/pound)

Mar 29		Prev. day
Comp. daily	92.64	90.60
15 day average	89.00	88.76

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	202.0	-	202.4	200.6	[illegible]	19,642
Aug	195.0	-	195.3	194.1	385	17,403
Oct	192.0	-	192.8	191.6	120	11,883
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4,996
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,213
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,566
Total					[illegible]	59,068

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	67,268
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	49,313
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	30,060
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19,001
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,204
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2,121
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	22,029
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14,982
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,814
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16,487
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,864
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,304
Total					[illegible]	60,048

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17,339
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5,311
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,628
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,511
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,865
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	317
Total					[illegible]	28,999

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 30	Mar 29	month ago	year ago
[illegible]	[illegible]	[illegible]	1676.8

■ CRB Futures (Base: 1967 = 100)

Mar 29	Mar 26	month ago	year ago
[illegible]	[illegible]	[illegible]	-

■ GSCI Spot (Base: 1970 = 100)

Mar 29	Mar 26	month ago	year ago
[illegible]	[illegible]	[illegible]	170.66

LME WAREHOUSE STOCKS (tonnes)

Aluminium	[illegible]	to	[illegible]
Aluminium alloy	[illegible]	to	[illegible]
Copper	[illegible]	to	[illegible]
Lead	[illegible]	to	[illegible]
Nickel	[illegible]	to	[illegible]
Zinc	[illegible]	to	[illegible]
Tin	[illegible]	to	[illegible]

Tea from the Tea Brokers' Association Mombasa. There was again good demand. Brighter and medium BPl's were irregular but on balance firm. Neater lower mediums and plainer sorts were dearer but others were easier. Brighter and coloury mediums PF1's gained 5-10 cents but lighter descriptions were a few cents easier. Lower mediums declined by 5-10 cents with plainer types down by 5-15 cents and sometimes more for poorly made teas. Brighter and medium p dusts were irregular and generally easier following quality. Lower mediums and plainer sorts were discounted by 5-15 cents.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	66.825	+0.050	67.150	65.800	6,665	33,945
Jun	63.975	-0.050	64.300	63.775	5,554	42,642
Aug	62.900	+0.200	63.000	62.575	1,867	16,314
Oct	65.100	+0.150	65.300	64.975	982	10,524
Dec	67.000	+0.075	67.200	66.950	491	4,962
Feb	68.075	+0.125	68.125	68.000	79	1,947
Total					15,424	112,879

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	41.550	-0.750	42.300	41.225	2,225	8,650
Jun	52.950	-0.775	53.400	52.350	3,133	18,399
Jul	54.350	-0.500	54.700	53.850	1,043	5,626
Aug	55.625	-0.100	55.800	55.200	471	5,535
Oct	54.175	+0.125	54.400	53.650	338	8,078
Dec	54.550	-0.075	54.700	54.200	123	3,195
Total					7,414	49,016

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	52.850	-1.350	53.550	51.200	581	2,981
Jul	52.850	-1.825	54.200	51.625	226	1,351
Aug	51.700	-1.025	52.750	50.350	66	399
Total					873	4,749

LONDON TRADED OPTIONS

Strike price $ tonne	Calls May	Calls Aug	Puts May	Puts Aug
■ ALUMINIUM (99.7%) LME	May	Aug	May	Aug
1150	73	6	101	19
1200	38	21	69	36
1250	16	49	44	60
■ COPPER (Grade A) LME	May	Aug	May	Aug
1350	53	26	98	48
1400	29	51	72	71
1450	13	86	51	89
■ COFFEE LIFFE	May	Jul	May	Jul
1750	8	4	17	191
1800	1	2	56	239
1850	1	1	108	288
■ COCOA LIFFE	May	Jul	May	Jul
800	37	65	12	34
850	12	39	37	48
875	6	29	56	63
■ BRENT CRUDE IPE	May	Jun	May	Jun
1300	-	-	3	-
1350	-	-	7	31
1400	80	110	18	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.92-4.02	+0.13
Brent Blend (dated)	$14.46-4.50	+0.04
Brent Blend (May)	$14.65-4.69	+0.13
W.T.I.	$16.33-6.35x	+0.15

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Unleaded Gasoline ‡	$160-162	+5
Gas Oil	$132-133	
Heavy Fuel Oil	$64-66	+1
Naphtha	$132-134	+3
Jet fuel	$145-146	+1
Diesel	$143-144	+1

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.30-9.35	-0.14

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

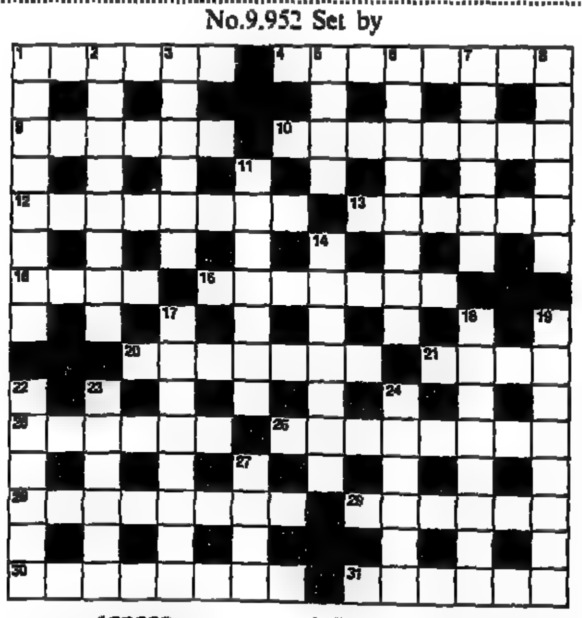
Gold (per troy oz)♣	$279.85	-1.3
Silver (per troy oz)♣	511.50	+5.75
Platinum (per troy oz.)	$361.00	-7.50
Palladium (per troy oz.)	$362.00	-4.00
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.65r	
Tin (New York)	249.5	-5.0
Cattle (live weight)	93.00p	-0.18*
Sheep (live weight)	99.65p	-1.01*
Pigs (live weight)†	57.82p	+1.91*
Lon. day sugar (raw)	$154.40	+2.20
Lon. day sugar (wte)	$213.80	+1.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£96.00	-1.0
Wheat (US Dark North)	£122.00	+1.0
Rubber (May)♥	42.00p	+0.75
Rubber (Jun)♥	42.50p	+0.75
Rubber (KL RSS No1)	226.50m	+1.00
Coconut Oil (Phil)§	700.0	
Palm Oil (Malay.)§	460.0y	
Copra (Phil)§	[illegible]	
Soyabeans (US)	[illegible]	
Cotton Outlook 'A' index	[illegible]	
Wooltops (64s Super)	[illegible]	

[illegible]

JOTTER PAD

CROSSWORD

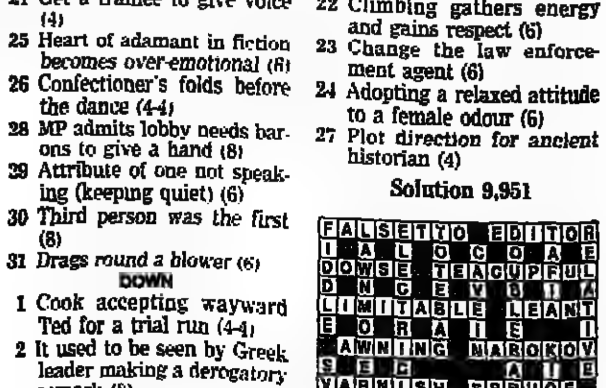
No.9,952 Set by



ACROSS
1 Fitter of ships reported for severity (6)
4 Hesitate about also effecting exchange of power (8)
9 Saint's reply to tree (6)
10 Band harvesting sainfoin (8)
12 Stocky class in the bottom stream? (8)
13 New pupils in trial shoot (6)
15 Two pigs with their tails docked in London district (4)
16 Criminal prepared meal without recipe (7)
20 It's put into sauce to give weight (7)
21 Get a trainee to give voice (4)
25 Heart of admiration in fiction becomes over-emotional (6)
26 Confectioner's folds before the dance (4-4)
28 MP admits lobby needs baron to give a hand (8)
29 Attribute of one not speaking (keeping quiet) (6)
30 Third person was the first (8)
31 Drags round a blower (6)

DOWN
1 Cook accepting wayward Ted for a trial run (4-4)
2 It used to be seen by Greek leader making a derogatory remark (8)
3 Uruguay's victory over Luxembourg is something else! (6)
5 Allies like to include a team (4)
6 Goalkeeper perhaps put off saving goal (8)
7 Far from cultured type at entrance of Victoria & Albert (6)
8 Academic book (8)
11 Make do without record during campaign (7)
14 Taking show round after first-class general impression (7)
17 Instrument in middle of testudo provided Romans with contentious object (8)
18 What's got into addressee of Burns' "Ode In The Pub"? (8)
19 Squeeze out mop into the salad (8)
22 Climbing gathers energy and gains respect (6)
23 Change the law enforcement agent (6)
24 Adopting a relaxed attitude to a female odour (6)
27 Plot direction for ancient historian (4)

Solution 9,951



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) [illegible] for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Antares Investment Management Ltd

Bermuda Intl Invest Mgmt Ltd

CAYMAN ISLANDS (REGULATED)(**)

NFS Meridian Funds - Contd.

Marshall Wace Asset Management Limited

Masters International Advisors

Morgan Stanley Offs Advisory Mortgage Fd Inc

National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

Omega Overseas Partners Ltd

Opportunity Fund (z)

Orion Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Paxison International Ltd

Perry Partners International Inc

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

Baring Intl Fd Mngrs - Contd.

The Hotel Mutual Investment Company Plc

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

AIB Govett (Channel Islands) Limited (1000)F

Barclays International Funds

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

Fidelity Funds - Contd.

Lombard Odier Invest (s)

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

Banque Internationale A Luxembourg

Henderson Independent Fund

Scudder Global Opportunities Funds - Contd.

OFFSHORE INSURANCES

[illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Allied Dunbar International Assce Ltd (z)

[illegible]

CMI Insurance Co Ltd

[illegible]

CMI Ins Co Ltd/Clerical Med Life

[illegible]

Old Mutual International (Guernsey) Ltd

[illegible]

Dresdner Bank Investment Group

[illegible]

Global Asset Management - Contd.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices

	Price	+ or -	52 week high	low	Yld Grs	NAV	Dis or Pm(-)
Approved by the Inland Revenue							
Aberdeen Emg Asia ♣	23½		29½	13¼	-	-	-
Aquarius Japan Smlr Fd	402½	+5½	408¼	156	-	469.6	17.7
Warrants	20½		25½	7½	-	-	-
Baring Emrg Euro ♣	91½	-¼	118	55	-	110.1	16.7
Warrants	47¼		67½	20¼	-	-	-
Brazilian IT N	35¼	+¼	61½	19¼	3.1	-	-
Warrants	9		39½	7	-	-	-
Central Euro Grth ♣	35¼	-	64½	26¼	-	47.1	24.1
Warrants	8¼		11½	9¼	-	-	-
East German	12½		14	5½	-	-	-
Egypt Trust $	694	-7	869¼	567½	2.3	[illegible]	[illegible]
Fdn Latin American $♣	80	-¼	128¼	46	-	110.2	19.3
Warrants	42¼	-2	76	16¼	-	-	-
Fst Russian Frontiers $♣	228½		1025	160	-	365.?	36.0
Warrants	62½	-5	550	30	-	-	-
Warrants II	42½		580	15	-	-	-
Five Arrows Chile	113½	+1½	113½	69¼	-	150.3	23.5
Warrants	1		4½	0½	-	-	-
Uts Cv Uns Ln 2040	122¼	+1	148½	83¼	-	-	-
Gowett Asian Smlr ♣	77		98	31	0.9	97.?	20.0
Henderson Sml Asia Co ♣	25½xd		36½	15½	0.7	38.1	32.4
Warrants	3½	+¼	7½	1½	-	-	-
Indonesia Fund	131½	-½	133	123¼	-	-	-
Warrants	8		9¼	7½	-	-	-
Israel Fund $	61½	-¼	63¼	39½	-	67.?	8.9
Korea-Europe $ ♣	213¼	-5	222½	95½	0.6	254.1	15.9
Korea Liberal $	117¼	+¼	131	73¼	-	177.6	33.7
Warrants	15½		15¼	1½	-	-	-
Lazard Beta India ♣	39½	-¼	39¼	23½	-	59.5	33.0
Warrants	8		9	5½	-	-	-
Schroder Korea Fd $♣	358¼	+1	376¼	141¼	-	-	-

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IBMR "Headline Earnings" forecasts.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- †† Rule 4.2(a) Irish incorporated non-listed companies
- \# Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. f Dividend/yield adjusted for complex issue. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on previous year's earnings. v Dividend/yield includes amount payable after 6/4/99. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1999. K Yield based on prospectus or other official estimates for 1999-2000. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1999-2000. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). P Dividend/yield adjusted for consolidation or share split. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date. Abbreviations: xd ex dividend; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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For Retail Price Index details call 0906 843 0085

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Dow decline overshadows unconvincing Footsie

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The rush of merger and takeover-inspired buying of leading UK stocks looked to have run out of steam yesterday, with the FTSE 100 index only just managing to finish in positive territory after a choppy session.

Footsie settled 1.2 higher at 6,264.1, having traded erratically and unconvincingly and with the prospect of a steep decline on Wall Street casting a shadow throughout the morning.

At its best, minutes after the start and again in mid-afternoon, the index posted a 25-points gain, only to run into pockets of profit-taking.

Unlike the leaders, the mid and smallcap stocks were never really troubled by sellers. Both the FTSE 250 and FTSE SmallCap indices were in positive ground all day, although they closed well below their best levels.

The 250 index ended 6.4 firmer at 5,475.5, having been up 13.3 at 5,482.7 at its best. The FTSE SmallCap closed 1.9 higher at 2,396.4.

Disappointed dealers in London said the market's failure to run on convincingly after three strong sessions stemmed from the warning issued by Coca-Cola that its first-quarter sales were down in all markets outside North America.

That warning came on Monday, after the Dow Jones Industrial Average had closed above 10,000 for the first time and ensured a poor opening to the US session yesterday. The Dow posted a three figure loss in early dealings before rallying to recoup more than 50 points of its fall.

There was also some nervousness in global markets ahead of the regular meeting of the US Federal Reserve's open market committee.

But marketmakers insisted that London felt solid underneath and that selling pressure was never substantial. "On balance we've sold more stock than we've bought," said one dealer.

He added that the prospect of another reduction in UK interest rates after next week's meeting of the Bank of England's monetary policy committee, should underpin sentiment, as would the expectation that the last flurry of personal equity plan money would be pushed into the market.

The sectors that fuelled much of the market's upside over the previous three days – drugs, telecommunications and oils – continued to attract buyers, particularly oils, which reflected the better feeling in crude markets.

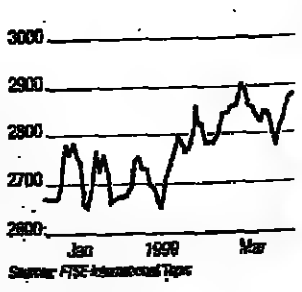
Another feature of the sector was the extremely high levels of turnover and a sharp rise in Enterprise Oil as dealers picked up hints that the prolonged takeover talks with Lasmo were about to be terminated.

Pharmaceutical stocks featured prominently as speculators remained convinced that *SmithKline Beecham* would soon attract a partner as part of the industry's global restructuring.

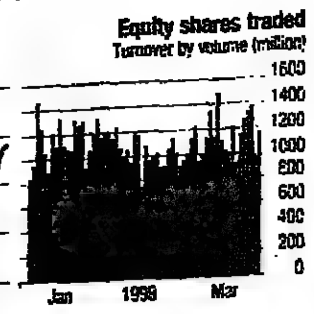
Retailers enjoyed a buoyant day after Selfridges delivered better-than-expected results and a positive trading update. On the downside, there were profit warnings from Corporate Services and Oriental Restaurants.

Turnover was a hefty 1.17bn, beefed up by a bought deal involving 41.2m Centrica shares carried out by Deutsche Bank.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Source: FTSE International Topic

Indices and ratios

FTSE 100	6264.1	+11.2
FTSE 250	5475.5	+6.4
FTSE 350	2978.7	+5.0
FTSE All-Share	2883.10	+4.76
FTSE All-Share yield	2.62	2.62
FT 30	3802.9	-1.1
FTSE Non-Fins p/e	25.15	25.14
FTSE 100 Fut Mar	6290.5	-27.5
10 yr Gilt yield	4.67	4.7
Long gilt/equity yld ratio	1.8	1.81

Best performing sectors

1 Tobacco +3.2
2 Pharmaceuticals +2.4
3 Consumer Goods +1.6
4 Property +1.6
5 Diversified Industrials +1.6

Worst performing sectors

1 Gas Distribution -2.7
2 Water -2.2
3 Electronic & Elect Equip -1.9
4 Retailers: Food -1.9
5 Utilities -1.8

Oil surge triggers break-up

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Holidays are always a testing time for relationships and Easter looks to be no exception for Lasmo and Enterprise Oil.

Analysts yesterday predicted that a break-up would be announced imminently. After the market closed, the predictions were confirmed and fickle analysts were already scouring for the next possible suitors.

Since the duo announced in mid-January they intended to get into bed, Lasmo and Enterprise have generated the sort of column inches Liam Gallagher and Patsy Kensit would be proud of. However, the relationship has been seen as potentially stormy and founded on far less genuine affection.

In fact, the basis of the match appeared to be the old-fashioned premise of being, as far as Lasmo was concerned, left on the shelf without a trust fund.

Analysts say that Lasmo is more confidently independent now the underlying oil price has jumped very quickly by almost 50 per cent to $14.38.

As Barney Gray of Williams de Broe put it: "I think there are insufficient synergies to justify this merger."

Enterprise recovered 14¼ to 367¼, on relief that it might not be taking on an old maid, while Lasmo limped off 1¾ to 133¾p.

Investors in Colt Telecom made it the best performer in the FTSE 100 after the shares jumped 45 to £10.18.

In the rest of the sector, a shortage of stock was cited in Energis which saw the shares harden 18 to £16.48.

The market's recent love affair with Securicor continued as the shares firmed 2 to 560p.

Credit Suisse First Boston has a sum-of-the-parts valuation of 700p on the group and suggests Securicor's 40 per cent stake in mobile phones operator Cellnet is worth between £3.3bn and £4.5bn.

CSFB has joined the growing band of those expecting BT to buy Securicor's holding in the next few months to gain full control of the mobile operator. BT shares closed 17 off at 997p after trade of 14m.

Zeneca hit a new high as the technical buying associated with the pharmaceutical company's impending merger with Astra of Sweden gathered pace.

Buying by *tracker funds*, which need to mirror the enlarged weighting of Astra in the Footsie, sent the shares up 110 to £29.45 on turnover of 12m.

SmithKline Beecham improved 36½ to 892p on the back of complex theories that Glaxo's talks with Bristol Myers Squibb, flushed out earlier in the week, meant the pharmaceuticals group was intending to make a move on SmithKline.

Centrica, the gas distributor, dominated turnover as Deutsche Bank placed 41.2m shares on behalf on one client at 109p a share. The stock was sold to a number of institutions and the shares fell 4¼ to 109p.

National Grid gains

National Grid was lifted 7¾ to 455¼p as Goldman Sachs upgraded its stance on the shares to "market outperformer" from "market performer".

Emap, the magazine publishing and radio group, was the biggest faller in the FTSE 100. A briefing to media analysts caused downgrades to profit forecasts and target prices and the shares dropped 61 to £12.20.

Mirror Group gained 6 to 211p after it became the latest UK internet provider. The media group also *received shareholder* approval to sell its 18 per cent stake in Scottish Media Group.

BAT gained 23½ to 540½p as Dresdner Kleinwort Benson published a note on the stock in which it upgraded its recommendation to "buy" from "hold". The broker has not changed its profit forecast.

Dresdner said the shares had fallen below their level at the time of the Rothmans merger even though the deal offered great scope for cost-cutting. It stressed a target price of 782p for the stock.

Reuters rose 38½ to 891p as ABN Amro reiterated its "undervalued" stance on the news and financial information group.

ABN believes operating margins at Reuters Information will rise to 15 per cent from 10 per cent and overall earnings per share will grow at 12 per cent a year, up from 10 per cent.

Among retailers Boots lost 28½ to 892p, after Merrill Lynch downgraded its long-term rating from "accumulate" to "neutral".

The broker said it expected earnings growth at the company for the period to December 1999 to be around 3 per cent – a figure said to be lower than that expected by several leading retailers – and a mere 5 per cent for the next year.

Merrill downgraded its profits for the year to the end of March by £15m to £550m, and for the following *year's estimate by the same* amount to £575m.

The retail team at Merrill said: "The premium which the shares have commanded for their relative earnings certainly now looks less supported."

Figures in line with expectations, with an upbeat statement on current trading, helped Selfridges resist the market trend. The shares improved 7 to 249p.

Credit Suisse First Boston was said to have had the buyers of Marks and Spencer. The shares appreciated 12½ to 389½p after trade of 9.9m.

AEA weakens

AEA Technology fell to levels not seen for 30 months, prompting some director share buying.

The engineering services and consultancy group issued a profits warning on Friday, citing cost-cutting in the oil industry. The stock was floated at 280p and touched a peak of £10.20 last July.

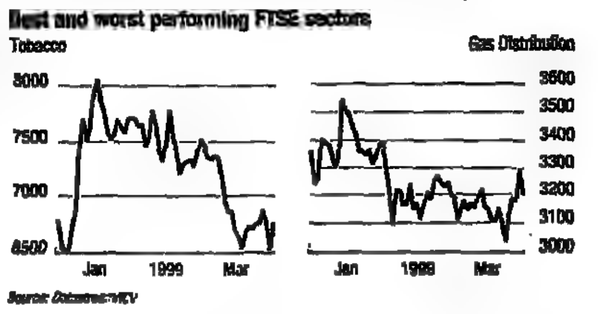
But in the past three trading days the shares have fallen from 617½p, and yesterday fell a further 33½ to 348½p.

The fall leaves the stock underperforming the FTSE All-Share by 20 per cent since flotation, having achieved an outperformance of 130 per cent between flotation and last July.

Sir Anthony Cleaver, chairman, paid 380p each for 10,000 shares yesterday.

Bid speculation continued to drive food producer Devro sharply ahead. Rumours of a 200p-a-share offer waiting to be tabled continued to circulate, which helped the shares rise 19, or nearly 15.5 per cent, to 142p. The advance made it the best performer *in the FTSE 250.*

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Mar 30	Mar 29	Mar 26	Mar 25	Mar 24	Yr ago	*High	*Low
FT 30	3802.9	3804	3747.3	3731.2	3686.8	3766.1	4004.8	2790.6
Ord. div. yield	2.73	2.74	2.79	2.81	2.83	2.93	4.22	2.72
P/E ratio net	23.10	23.14	22.72	22.57	22.30	24.21	23.41	15.80
P/E ratio nil	23.04	23.08	22.66	22.51	22.73	24	25.19	15.71

FT 30 since compilation: high [illegible] low [illegible]

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3804.0	3804.7	3809.0	3799.3	3797.1	3797.0	3809.6	3803.7	[illegible]	3816.7	3788.9

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STOCK MARKET: TRADING DATA

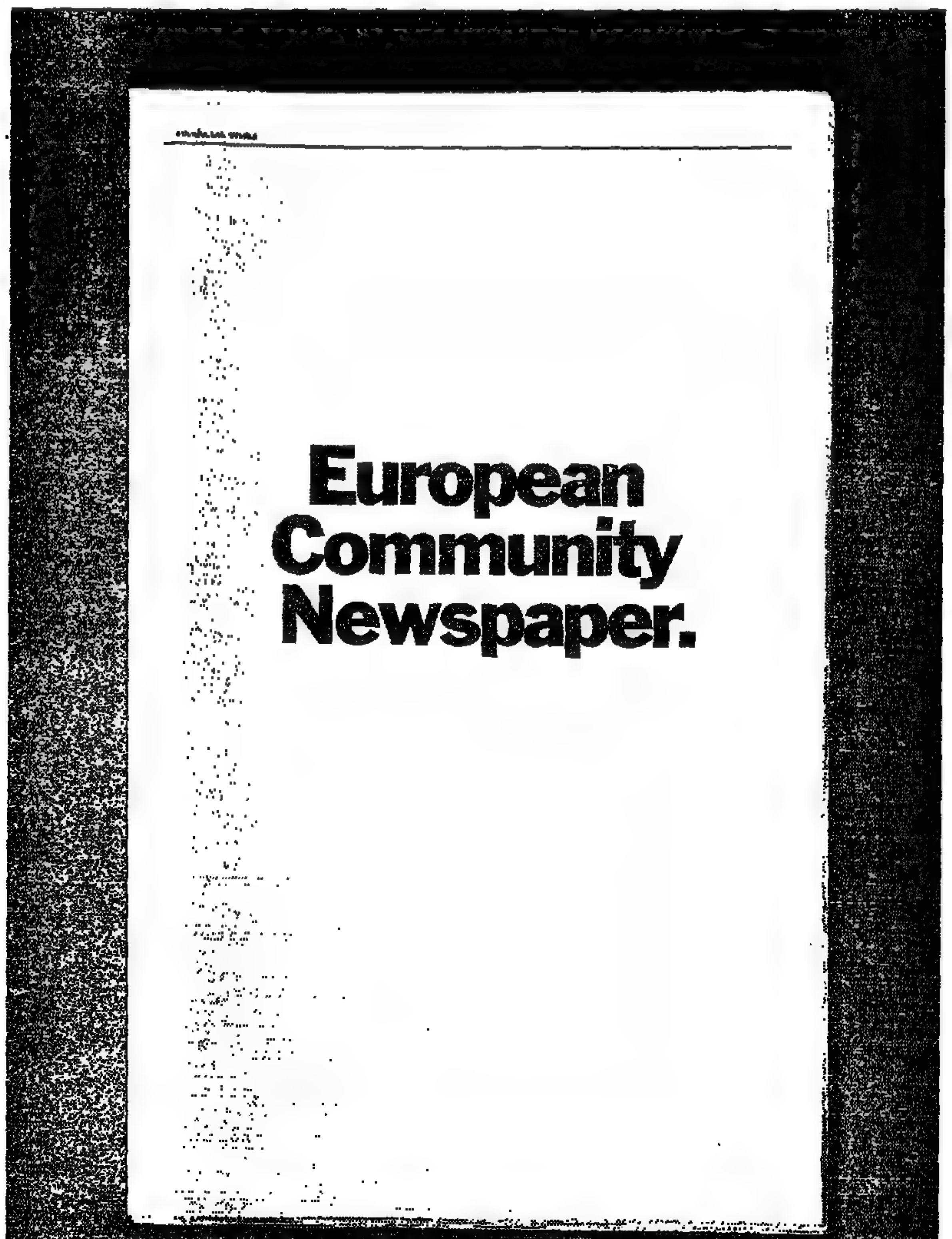
	Mar 30	Mar 29	Mar 26	Mar 25	Mar 24	Yr ago
SEAQ bargains	92,879	89,517	82,961	94,572	97,383	79,032
Equity turnover (£m)†	-	5190.1	-	4794.5	6230.1	3240.6
Equity bargains†	-	75,614	-	70,805	119,880	56,746
Shares traded (mil)†	-	1758.3	-	1187.0	1909.8	847.0
Total market bargains	-	95,964	84,141	85,301	158,624	-
Total turnover (£m)†	-	6610.3	5572.4	7266.2	11731.2	-
Total shrs traded (mil)†	*1178.4	1424.3	1383.2	1852.1	2929.0	-
Tradepoint turnover (£m)	20.8	16.3	25.2	40.4	43.9	54.8
Tradepoint shrs traded (mil)	8.9	7.2	10.3	15.3	12.1	11.1

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	690	Total Highs	93	Total contracts	36,001
Total Falls	640	Total Lows	34	Calls	14,837
Same	1,330			Puts	21,164

Mar 30 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6330.0	6304.5	-0.5	6334.0	6286.0	28951	165506
Sep		6348.5	-0.5			0	3973
Dec		6399.5	-0.5			0	200

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		5476.0	+8.0			0	7380

FTSE 100 INDEX OPTION (LIFFE) (*6264) £10 per full index point Mar 30

	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P	6450 C	6450 P
Apr	219½	40	183½	54	147	68½	117½	89	88½	110½	66	139½	46	170	32½	207½
May	312½	118	276	133½	245	153½	213½	174	182½	193½	152½	217	128	245	108½	274½
Jun	382	179½	352½	197½	322½	277½	292½	237	282½	250½	232½	276½	208½	303½	187½	331½
Sep	447½	232½	416	251	386	269½	357½	288½	328½	303	298½	327½	269	352½	247	380
Dec†	707	419			648	457½			589	497			629½	536		

Calls 1,041 Puts 630

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Mar 30

	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P	6325 C	6325 P	6375 C	6375 P	6425 C	6425 P	6475 C	6475 P
Apr	185½	45½	162½	62	129	78½	98½	99	74	122½	55	152	38	188	25½	222
May	292½	122	259	144½	227½	165	197½	183	170	205½	144½	220	121½	257	101	285½
Jun	368	183½	333	235	363	224½	273	246	347½	258	321	280½	195½	314½	173½	342
Sep	545	327			481½	361			430	457			377½	482		
Dec†	679	475½			622½	454½			594½	497½			510	554½		

Calls 4,384 Puts 3,424 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div	Div. cov.	Grs yld	P/E net
§175	F.P.	132.5	280½	258	Aero Group	271½	+5	-	-	-	-
-	F.P.	25.9	100	85½	B&I Entertainment	88½		-	-	-	-
-	F.P.	17.5	118	95½	Cairngorm Renewal	102½	-1	-	-	-	-
-	F.P.	0.54	27	22	Do Wrts	25½		-	-	-	-
-	F.P.	-	343	331	Canary Wharf (Mi)	332	-1½	-	-	-	-
	F.P.	65.3	101½	99	Enhanced Zero Tst	100½		-	-	-	-
-	F.P.	39.5	8	7	Gander Properties	7½		-	-	-	-
§	F.P.	21.2	128½	96½	Gartmore High In	105		87.2	-	5.6	-
	F.P.	15.7	109	101½	Do Zero Pf	108½		-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

§ Placing price. * Introduction. For a full explanation of all other symbols please refer to the London Share Service notes.

FTSE GOLD MINES INDEX

	Mar 29	% chg on day	Mar 26	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	880.79	-2.08	879.84	1191.88	2.13	988.88	1361.87	791.59
Regional indices								
Africa (16)	867.77	+0.29	984.93	1088.43	4.25	985.81	1488.04	765.63
Australasia (7)	1090.86	-2.18	1114.87	1412.03	2.99	1108.81	1600.63	815.93
Americas (11)	787.74	-3.17	813.52	1153.82	0.92	790.80	1317.41	642.89

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Mar 30	Day's chge%	Euro Index	£ Stg Mar 29	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6264.1	+0.2	7319.7	6252.5	5932.2	2.47	2.21	1.95	25.94	60.16	2796.17
FTSE 250	5475.5	+0.1	6397.5	5469.4	5725.4	3.16	2.68	2.06	19.15	42.37	2401.11
FTSE 250 ex Inv Tr	5528.4	+0.1	6460.0	5523.7	5868.7	3.31	3.00	2.12	17.84	43.83	2435.40
FTSE 350	2978.7	+0.2	3480.6	2973.7	2852.3	2.59	2.32	1.97	24.58	23.73	2717.73
FTSE 350 ex Inv Tr	2986.8	+0.2	3490.0	2981.5	2856.8	2.59	2.33	1.99	24.35	23.98	1397.92
FTSE 350 Higher Yield	2858.8	-0.1	3340.5	2862.5	2831.9	3.48	3.10	1.84	19.52	28.15	2244.21
FTSE 350 Lower Yield	3098.8	+0.5	3621.0	3084.1	2891.2	1.66	1.52	2.25	33.46	18.65	2282.87
FTSE SmallCap	2396.36	+0.1	2800.15	2394.53	2629.54	3.41	2.94	2.07	17.73	16.10	2131.37
FTSE SmallCap ex Inv Tr	2369.23	—	2768.46	2369.25	2625.93	3.61	3.14	2.19	15.79	16.19	2131.46
FTSE All-Share	2883.10	+0.2	3368.91	2878.34	2781.66	2.62	2.35	1.98	24.14	22.80	2669.74
FTSE All-Share ex Inv Tr	2895.07	+0.2	3382.90	2890.43	2786.57	2.63	2.36	2.00	23.82	23.08	1379.47
FTSE Fledgling	1302.61	+0.1	1522.10	1301.70	1410.80	3.60	3.04	1.35	25.79	7.42	1475.52
FTSE Fledgling ex Inv Tr	1316.97	—	1538.88	1317.32	1430.40	4.09	3.46	1.39	22.00	8.12	1500.85
FTSE All-Small	1356.71	+0.1	1585.32	1355.70	1464.67	3.45	2.96	1.91	18.98	6.82	1640.09
FTSE All-Small ex Inv Tr	1367.31	—	1597.71	1367.40	1505.06	3.71	3.20	2.01	16.74	6.18	1564.22
FTSE AIM	866.1	+0.2	1012.0	864.7	1059.1	1.28	1.08	20.00†	0.12	2.28	897.57

FTSE Actuaries Industry Sectors

	£ Stg Mar 30	Day's chge%	Euro Index	£ Stg Mar 29	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	4891.25	—	5715.45	4893.25	4638.94	2.84	2.56	1.17	37.71	26.99	2297.66
12 Extractive Industries(8)	3330.14	-0.5	3891.28	3348.26	3157.15	3.84	3.57	2.04	16.00	69.75	1098.68
15 Oil, Integrated(3)	5717.33	—	6680.72	5719.45	5157.33	2.79	2.50	1.09	41.00	23.20	2758.95
16 Oil Exploration & Prod(8)	1702.62	+1.2	1989.51	1682.85	3275.71	1.55	1.49	‡	‡	7.97	1071.86
20 GEN INDUSTRIALS(187)	1968.74	-0.7	2298.14	1979.97	2231.07	3.53	3.24	2.37	14.95	19.73	1169.28
21 Construction(37)	1503.40	+0.2	1756.73	1499.88	1629.36	3.23	2.86	3.41	11.36	11.32	1374.91
22 Building Matls & Merchs(23)	1797.76	-0.9	2100.69	1814.07	1986.17	4.07	3.74	2.26	13.58	7.34	1006.93
23 Chemicals(20)	2028.04	—	2369.77	2028.68	2922.86	4.73	4.52	1.58	16.72	47.53	1080.66
24 Diversified Industrials(4)	1063.62	+1.6	1242.85	1047.02	1463.55	6.16	5.43	1.08	18.83	5.26	678.45
25 Electronic & Elect Equip(26)	2975.56	-1.9	3476.95	3033.47	2561.73	2.44	2.11	2.08	24.60	20.12	1679.59
26 Engineering(53)	2399.74	-0.7	2804.10	2416.51	3013.68	3.44	3.19	2.42	14.98	22.19	1594.33
27 Engineering, Vehicles(8)	4356.18	+1.3	5090.22	4300.97	4065.73	2.11	2.09	4.98	11.87	37.49	2447.63
28 Paper, Pckg & Printing(17)	1755.57	-1.6	2051.39	1784.95	2230.05	6.05	5.39	2.21	9.34	37.45	828.84
30 CONSUMER GOODS(83)	6061.24	+1.6	7082.59	5964.81	5675.96	2.19	2.09	1.56	29.36	57.92	2440.10
32 Alcoholic Beverages(6)	3659.86	+0.4	4276.56	3643.67	3936.73	2.98	2.37	2.40	17.45	47.14	1466.47
33 Food Producers(26)	3338.95	-0.6	3901.57	3359.95	3884.94	2.71	2.50	2.19	21.08	20.43	1646.38
34 Household Goods & Texts(13)	1991.23	-0.6	2326.76	2002.27	3452.12	5.10	4.81	1.05	14.82	37.45	870.92
36 Health Care(14)	2509.12	+1.1	2931.92	2481.88	2349.29	2.10	1.93	2.11	28.26	2.45	1822.10
37 Pharmaceuticals(21)	11270.02	+2.4	13169.07	11002.68	9500.72	1.58	1.51	1.79	44.87	90.83	4095.42
38 Tobacco(3)	6747.92	+3.2	7884.97	6535.70	5060.75	4.73	4.44	1.53	17.26	191.28	1978.26
40 SERVICES(281)	3850.57	-0.2	4499.41	3858.92	3415.76	2.16	1.95	2.14	27.05	14.38	2150.34
41 Distributors(25)	2028.40	+1.3	2370.19	2002.46	2921.95	4.29	3.84	2.05	14.14	15.17	820.73
42 Leisure & Hotels(30)	3870.99	+0.4	4523.27	3855.56	3965.92	2.25	2.17	2.95	18.59	48.07	2241.51
43 Media(44)	5253.20	+0.8	6138.39	5210.58	4446.78	1.96	1.73	2.27	29.58	35.81	2021.57
44 Retailers, Food(13)	2493.26	-1.9	2913.38	2540.80	3108.96	3.56	2.95	2.18	15.71	6.37	1723.64
45 Retailers, General(41)	2339.04	+0.2	2733.18	2334.75	2384.51	3.18	2.63	2.08	18.83	6.15	1451.33
46 Telecommunications(9)	6001.14	—	7012.36	6002.90	3806.23	1.45	1.18	1.63	52.99	4.51	2960.38
47 Breweries, Pubs & Rest.(22)	3721.26	-0.5	4348.37	3741.31	4374.56	3.38	2.75	2.20	16.80	16.98	1940.23
48 Support Services(69)	5122.63	-0.8	5985.82	5162.13	4788.90	1.19	1.09	2.52	36.88	5.93	3399.16
49 Transport(28)	3605.37	-1.6	4212.88	3665.61	3474.23	2.81	2.50	2.07	21.49	28.42	1640.67
60 UTILITIES(20)	3835.79	-1.8	4482.13	3906.19	3871.82	4.05	3.51	1.84	16.82	16.48	1874.07
62 Electricity(7)	4279.62	-1.1	5000.75	4325.66	4335.48	4.51	3.73	1.31	21.25	21.24	2569.00
64 Gas Distribution(2)	3204.11	-2.7	3744.01	3292.24	2844.06	1.97	1.75	2.67	23.78	0.00	1867.63
68 Water(11)	3066.79	-2.2	3583.54	3136.91	3487.65	5.47	5.05	2.35	9.72	24.10	1947.79
69 NON-FINANCIALS(589)	2926.54	+0.1	3419.68	2924.22	2761.28	2.56	2.29	1.94	25.15	18.19	2430.49
70 FINANCIALS(120)	5611.78	+0.4	6557.39	5589.33	5750.03	2.83	2.56	2.14	20.58	74.14	2663.58
71 Banks, Retail(12)	8756.91	—	10232.48	8756.20	8370.87	2.80	2.50	2.22	20.07	129.67	3153.16
73 Insurance(20)	2276.72	+1.5	2660.36	2243.55	2726.46	3.03	2.87	2.13	19.34	29.62	1932.89
74 Life Assurance(6)	6774.76	+0.8	7916.33	6718.91	7334.16	2.79	2.66	1.98	22.62	74.88	3088.22
77 Other Financial(32)	4351.35	+0.7	5084.57	4319.80	4754.47	2.44	2.15	2.13	24.08	36.41	2711.07
79 Property(48)	1907.17	+1.6	2228.54	1877.03	2381.93	3.31	2.90	1.71	22.14	9.88	1277.74
80 INVESTMENT TRUSTS(118)	3824.38	+0.4	4468.80	3810.90	3917.77	2.17	1.93	1.17	49.05	21.10	1414.68
89 FTSE All-Share(827)	2883.10	+0.2	3368.91	2878.34	2781.66	2.62	2.35	1.98	24.14	22.80	2669.74
105 FTSE All-Share ex Inv Tr(709)	2895.07	+0.2	3382.90	2890.43	2786.57	2.63	2.36	2.00	23.82	23.08	1379.47
Information Technology	1831.56	-0.5	2140.19	1840.20	1475.03	0.50	0.44	4.94	50.81	2.09	1843.35

Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6265.8	6265.2	6260.2	6249.5	6246.7	6255.4	6272.0	6262.4	6278.8	6237.6
FTSE 250	5481.2	5470.7	5473.5	5475.3	5472.9	5471.8	5475.0	5471.6	5482.7	5466.2
FTSE 350	2979.8	2978.7	2976.9	2972.8	2971.5	2974.9	2981.8	2977.6	2984.6	2967.6
FTSE SmallCap	2397.04	2396.27	2395.76	2395.74	2395.80	2396.09	2396.09	2396.33	2397.05	2395.29
FTSE All-Share	2884.16	2883.08	2881.42	2877.61	2876.38	2879.53	2885.92	2882.12	2888.51	2872.85

Time of FTSE 100 Day's high: 15:18:30 Day's low: 10:21:30. FTSE 100 1998/99 High: 6335.7 (11/03/99) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:11:00 Day's low: 10:21:00. FTSE All-Share 1998/99 High: 2908.30 (11/03/99) Low: 2166.07 (05/10/98)

Further information is available on http://www.ftse.com.

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituent companies and selected FTSE 250 stocks. † Indicates a FTSE 100 index member. Source: Financial Times Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 30) / €

BELGIUM/LUX (Mar 30) / €

GERMANY (Mar 30) / €

FINLAND (Mar 30) / €

FRANCE (Mar 30) 1 € = 6.55957 Frs.

NETHERLANDS (Mar 30) 1 € = 2.20371 Fl.

IRELAND (Mar 30) 1 € = 0.78756 Punt

ITALY (Mar 30) 1 € = 1936.27000 Lire

PORTUGAL (Mar 30) 1 € = 200.48200 Esc.

SPAIN (Mar 30) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Mar 30 / Koruna)

DENMARK (Mar 30 / Kr)

GREECE (Mar 30 / Drachma)

NORWAY (Mar 30 / Kroner)

POLAND (Mar 30 / Zloty)

SWEDEN (Mar 30 / Kronor)

SWITZERLAND (Mar 30 / Frs.)

TURKEY (Mar 25 / TL Lira)

PACIFIC

JAPAN (Mar 30 / Yen)

HONG KONG (Mar 30 / H.K.$)

INDONESIA (Mar 30 / Rupiah)

MALAYSIA (Mar 30 / MYR)

NEW ZEALAND (Mar 30 / NZ $)

SINGAPORE (Mar 30 / S$)

AUSTRALIA (Mar 30 / Aust$)

SOUTH KOREA (Mar 30 / Won)

TAIWAN (Mar 30 / TW $)

THAILAND (Mar 30 / Baht)

AMERICAS

CANADA

TORONTO (Mar 30 / Can $) 3:15 pm

MONTREAL (Mar 30 / Can $) 3:15 pm

MEXICO (Mar 30 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Mar 30 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MARCH 29 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MARCH 26 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	217.00	-1.0	198.76	164.26	[illegible]	227.71	-1.0	3.31	219.20	200.61	166.40	235.15	229.96	219.96	163.85	216.84
Austria (21)	179.38	0.1	164.31	135.74	170.08	170.08	0.3	2.08	179.21	164.02	136.04	168.64	168.64	253.73	165.27	221.21
Belgium (22)	361.19	0.5	330.83	[illegible]	335.28	335.28	0.7	2.02	359.34	328.86	272.77	333.02	333.02	446.95	305.26	309.78
Brazil (29)	131.89	0.6	120.81	99.80	141.72	427.89	0.3	5.60	131.17	120.05	99.57	140.71	426.75	269.34	89.32	280.97
Canada (113)	209.99	0.1	192.34	158.90	225.63	229.96	0.0	1.71	209.82	192.03	159.28	225.09	229.95	248.78	159.94	247.28
Denmark (34)	413.24	-1.4	378.50	312.70	444.02	[illegible]	-1.3	1.90	419.22	383.67	318.23	449.72	394.79	537.33	406.82	[illegible]
Finland (29)	656.97	0.8	601.74	497.13	[illegible]	764.92	1.0	7.54	651.81	596.53	494.79	757.69	757.69	661.25	338.49	372.00
France (74)	316.57	0.9	289.96	239.55	[illegible]	303.94	1.1	1.99	313.75	287.14	238.17	300.75	300.75	354.45	253.86	294.94
Germany (55)	248.19	1.9	227.33	187.81	235.48	235.48	2.0	1.58	243.58	222.93	184.90	230.74	230.74	325.61	226.35	278.11
Greece (36)	406.44	-2.1	372.27	307.55	436.71	886.12	-1.6	1.00	415.22	380.00	315.19	445.42	900.39	454.89	211.47	–
Hong Kong, China (66)	312.70	-1.1	286.41	236.62	[illegible]	311.10	-1.1	[illegible]	316.23	289.42	240.05	339.24	314.61	350.39	196.64	358.38
Indonesia (24)	44.89	0.2	41.12	[illegible]	48.24	244.42	-0.1	1.19	44.82	41.02	34.02	48.08	244.71	64.52	19.04	59.58
Ireland (14)	529.54	0.2	485.03	400.70	548.33	548.33	0.3	1.87	528.70	483.87	401.34	546.58	546.58	605.85	396.15	523.86
Italy (53)	169.46	2.1	155.22	128.23	228.66	228.66	2.2	[illegible]	166.00	151.92	126.01	223.63	223.63	192.64	128.88	180.94
Japan (445)	110.71	0.3	101.40	83.77	118.85	83.77	0.0	0.88	110.34	100.98	83.76	118.37	83.76	113.43	76.83	100.34
Mexico (29)	1463.79	2.8	1340.74	1107.66	1572.81	15284.91	2.4	1.64	1423.27	1302.57	1080.41	1526.82	14931.08	1733.73	787.15	1675.95
Netherlands (26)	487.04	1.7	446.10	368.54	457.10	457.10	1.9	2.04	478.92	438.31	363.55	446.75	446.75	582.73	394.92	484.91
New Zealand (18)	62.54	-0.4	57.28	47.32	67.10	62.00	-0.3	3.86	62.75	57.43	47.64	67.32	62.26	78.46	45.88	76.48
Norway (37)	240.09	2.1	219.90	181.67	257.97	253.74	1.9	1.94	235.13	215.19	178.49	252.23	249.03	357.71	181.86	335.29
Philippines (22)	90.64	-1.4	83.02	68.59	97.39	175.27	-1.3	0.84	91.96	84.16	69.81	98.65	177.59	105.83	42.48	108.03
Portugal (18)	224.66	-0.8	205.78	170.00	287.66	287.66	-0.6	1.14	226.44	207.24	171.89	289.48	289.48	298.39	194.13	–
Singapore (40)	213.38	0.0	195.44	161.47	229.27	170.41	0.0	1.55	213.36	195.28	161.96	228.88	170.41	243.04	102.45	243.04
South Africa (34)	204.74	-0.4	187.53	154.93	219.99	278.80	-0.6	3.45	205.67	188.23	156.12	220.63	280.62	346.20	151.55	303.68
Spain (30)	363.46	0.7	332.90	275.09	427.49	427.49	0.8	[illegible]	360.98	330.37	274.02	423.80	423.80	495.10	290.81	377.00
Sweden (43)	516.95	0.9	473.49	391.17	555.45	638.11	1.0	1.94	512.21	468.77	388.82	549.47	631.94	628.19	379.18	569.52
Switzerland (30)	383.86	1.0	351.58	290.47	412.45	353.90	1.1	1.19	380.08	347.84	288.52	407.73	349.87	441.65	307.73	398.18
Thailand (26)	24.89	-1.3	22.80	18.84	26.75	36.35	-1.5	2.28	25.23	23.09	19.15	27.06	36.89	31.98	8.15	31.88
United Kingdom (201)	394.85	1.7	361.66	298.79	424.26	361.66	1.7	2.63	388.41	355.47	294.84	416.66	355.47	401.84	307.96	391.11
USA (606)	539.93	2.1	494.55	408.57	580.15	539.93	[illegible]	1.24	528.86	484.01	401.46	567.33	528.86	542.89	390.12	447.44
Americas (779)	479.35	2.0	439.06	362.73	515.06	406.78	2.0	1.27	469.85	430.01	356.67	504.03	398.75	481.42	347.59	406.25
Europe (723)	350.36	1.4	320.90	265.11	376.45	337.86	1.5	2.03	345.66	316.35	262.39	370.81	332.91	386.24	282.63	340.73
Eurobloc (342)	98.46	1.4	90.18	74.50	101.10	101.10	1.5	1.79	97.14	88.90	73.74	98.59	99.59	113.92	81.53	–
Nordic (143)	500.77	0.6	458.68	378.94	538.07	533.43	0.7	1.81	497.64	455.44	377.78	533.85	529.65	555.87	360.04	495.63
Pacific Basin (716)	117.84	0.1	107.93	89.17	126.62	91.84	-0.2	1.35	117.75	107.76	89.38	126.31	92.00	120.45	82.88	111.98
Euro-Pacific (1439)	214.25	1.0	196.24	162.13	230.21	184.20	1.0	[illegible]	212.22	194.23	161.10	227.66	182.44	221.79	166.80	210.68
North America (721)	517.51	2.0	474.01	391.60	556.05	518.50	2.0	1.25	507.24	464.22	385.04	544.14	508.22	519.60	374.82	434.82
Europe Ex. UK (522)	317.67	1.2	290.95	240.38	341.33	318.34	1.4	1.71	313.81	287.29	238.29	336.75	312.11	366.32	260.93	317.23
Europe Ex. Eurobloc (381)	98.49	1.4	90.21	74.53	105.83	101.12	1.5	2.27	97.17	88.93	73.78	104.24	99.67	103.83	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	93.99	0.7	86.09	71.12	100.99	96.21	0.8	1.43	93.36	85.44	70.87	100.15	95.43	109.21	75.16	–
Pacific Ex. Japan (271)	190.33	-1.0	174.33	144.02	204.50	194.62	-0.9	3.27	192.15	175.86	145.86	206.13	196.47	214.82	128.26	214.82
World Ex. Eurobloc (1910)	111.08	1.6	101.74	84.05	119.35	110.63	1.6	[illegible]	109.34	100.07	83.09	117.30	108.83	111.15	83.09	–
World Ex. US (1644)	214.11	0.9	196.11	162.02	230.05	189.51	0.9	1.85	212.15	194.16	161.05	227.39	187.78	221.91	165.35	214.77
World Ex. UK (2051)	311.81	1.5	285.60	235.95	335.03	283.74	1.5	[illegible]	307.08	281.03	233.10	329.41	279.48	314.12	236.11	280.14
World Ex. Japan (1807)	422.86	1.7	387.32	319.98	454.36	419.66	1.7	[illegible]	415.78	380.52	315.62	446.03	412.67	427.99	328.58	383.77
The World Index (2252)	318.98	1.6	292.16	241.37	342.74	280.95	1.6	1.52	314.10	287.46	238.43	336.95	286.50	320.63	242.36	280.51

Emerging markets: IFC investable indices

Dollar terms

NEW YORK STOCK EXCHANGE PRICES

4.15 pm March 30

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close	Chng
63	33¾	Xerox x	0.80	1.5	20	20155	52[illegible]	51	51[illegible]	[illegible]
[illegible]	[illegible]	XI Corp	1.76	2.9	9	863	60[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Xtra Corp			10	137	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Eng	1.38	6.0	20	57	23	[illegible]	[illegible]	
[illegible]	[illegible]	York Int x	0.40	1.7	10	721	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zapata			3	580	[illegible]	[illegible]	[illegible]	[illegible]
50	31	Zeneca	0.80	1.7	38	5861	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat	1.00	4.1	19	11	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zeta Inc	0.67	11.4		195	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	ZweigFd&P	1.20	11.4		380	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot	0.84	10.1		575	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sct- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 29	Mar 26	Mar 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	10006.78	9822.24	9836.39	10006.80 (29/3/99)	7539.07 (31/8/98)	10006.80 (29/3/99)	41.22 (8/7/32)
Home Bonds	104.28	104.06	104.14	107.17 (9/12/98)	104.06 (26/3/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3294.37	3260.11	3329.70	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	300.31	299.77	304.39	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 10029.48/9923.53 ; Low 9937.76 (9770.69) (Theoretical) Day's high 10040.36/9853.32 ; Low 9921.61 (9747.31) (Actual)

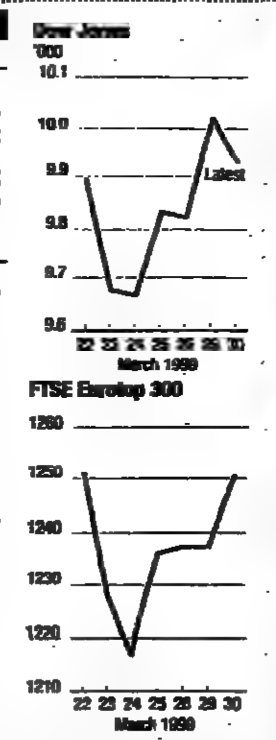
Standard and Poors	Mar 29	Mar 26	Mar 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1310.17	1282.80	1289.99	1316.55 (18/3/99)	927.69 (8/1/98)	1316.55 (18/3/99)	4.40 (1/6/32)
Industrials‡	1577.80	1541.99	1550.31	1578.98 (18/3/99)	1077.40 (9/1/98)	1578.98 (18/3/99)	3.52 (30/6/32)
Financial‡	141.87	139.59	140.17	147.80 (14/7/98)	[illegible] (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp	613.16	602.35	604.86	617.81 (18/3/99)	477.28 (8/10/98)	617.81 (18/3/99)	4.64 (25/4/42)
Amex Comp	717.88	718.74	712.48	753.87 (22/4/98)	563.75 (8/10/98)	753.87 (22/4/98)	524.20 (18/7/96)
NASDAQ Cmp	2492.84	2419.17	2434.88	2510.08 (1/2/99)	1419.12 (8/10/98)	2510.08 (1/2/99)	54.87 (3/10/74)
Russell 2000	399.78	393.92	392.99	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 26	Mar 19	Mar 12	Year ago
Dow Jones Ind. Div. Yield	1.61	1.60	1.60	1.30
	Mar 24	Mar 17	Mar 10	Year ago
S & P Ind. Div. yield	1.13	1.11	1.12	1.32
S & P Ind. P/E ratio	39.72	40.63	40.71	30.37

US DATA

[illegible]



Dow Jones ('000) — March 1999

FTSE Eurotop 300 — March 1999

JAPAN

	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	15959.12	16031.84	16079.59	[illegible]	[illegible]	[illegible]	85.25

Day's high 16084.54. Day's low 15805.65

TOKYO TRADING ACTIVITY — Volume: 454,130,000

[illegible]

FRANCE

	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4141.98	4153.65	4115.71	4388.48	2862.54	4388.48	984.61

Day's high: 4182.87 Day's low: 4139.20.

PARIS TRADING ACTIVITY

[illegible]

GERMANY

	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4858.84	4878.92	4775.17	6171.43	[illegible]	6171.43	931.18

Day's high: [illegible]. Day's low: 4821.12.

FRANKFURT TRADING ACTIVITY — Volume: (n)

[illegible]

UK

	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6284.1	6252.9	6130.2	6335.7	4648.7	6335.7	986.9

Day's high: 6279.8. Day's low: 6257.8

LONDON TRADING ACTIVITY — Volume: 1,174,400,000

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low
Jun	1316.00	1309.50	-7.20	1317.40	1308.50
Sep	-	1321.00	-8.00	-	1321.00

Nikkei 225	Open	Sett price	Change	High	Low
Jun	16130.0	15850.0	-160.0	16210.0	15800.0
Sep	16160.0	15870.0	-330.0	16160.0	15870.0

Open interest figures for previous day

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

3:15 pm March 30

[illegible]

AMEX

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Dow landmark fails to spark celebration

WORLD OVERVIEW

The Dow Jones Industrial Average may have finally closed above 10,000 on Monday but investors were in no mood for celebration yesterday, *writes Philip Coggan*.

Although Korea and Hong Kong kept the momentum going in Asian trading, European bourses lost their early gains and the Dow quickly slipped back below 10,000 once Wall Street opened.

While Monday had been dominated by merger news, yesterday brought some timely *reminders of economic weakness* in various parts of the world.

Japan saw its unemployment rate jump to 4.6 per cent, above that of the US, while separate data showed that Japanese consumers spent just 67.8 per cent of their disposable income – the lowest propensity to consume since figures started to be compiled in that form.

The weak data followed a surprise drop in industrial production, announced on *Monday*, and rekindled doubts as to whether the Japanese economy has really turned the corner.

Meanwhile, the European Commission cut its forecast for gross domestic product growth in the euro-zone from 2.6 to 2.2 per cent, slashing its German forecast from 2.2 to 1.7 per cent. The forecast for France fell from 2.6 to 2.3 per cent.

Private sector economic forecasts had already been revised down. "In the last two weeks, we have seen weak business surveys out of Germany and France," the strategy team at Credit Suisse First Boston said.

"This, to be fair, contrasts markedly with buoyant consumer surveys. However, it is questionable how sustainable the consumer's optimism will be without some strengthening in manufacturing."

They added: "Rather than get too gloomy, we would focus on the pressure this will put on the European Central Bank to cut rates next month. We continue to look for 50 basis points off rates in the months ahead."

Adding to the economic concerns were signs that the situation in Kosovo was finally starting to affect the equity markets. The initial view of investors had seemed to be that air strikes would quickly be effective, but the longer the conflict continues, the greater their worries are likely to become.

European markets ended with modest losses, with Frankfurt shedding 0.5 per cent and Zurich 0.9 per cent.

In the US, the market lost impetus *in the face of a profits warning* from Coca-Cola, one of the leading consumer growth stocks. The Dow dropped 100 points in early trading as investors awaited the decision of the Federal Reserve on interest rates.

High-techs lead rebound after early fall

AMERICAS

Sellers stepped in to drive Wall Street lower in morning trade a day after the Dow Jones Industrial Average closed above the 10,000 level for the first time, *writes John Labate in New York*.

The benchmark index lost more than 100 points in the opening minutes of trade before picking up from its lowest levels. At midday the Dow had lost 46.07 at 9,960.71. The Standard & Poor's 500 index was down 2.80 at 1,307.37.

The rebound at midday was led by high-tech stocks, which sent the Nasdaq composite index into positive territory by late morning. At midday, the Nasdaq had gained 8.60 at 2,501.44.

Bonds gained ground while stocks were sold off as the Federal Reserve Board's open market committee met to decide interest rate policy.

Although many economists expect no action by the Fed in the near term, *economic reports are* increasingly important as more analysts express worries about the surprising strength in US economic indicators in recent weeks.

Friday's monthly employment report is considered the key to signs of wage rises in what continues to be a tight labour market. In early trading yesterday the benchmark 30-year bond had gained ¾ to 94⅜, sending the yield lower to 5.616 per cent.

Coca-Cola shares weighed on the Dow, losing more than 6 per cent or $4⅝ at $62⅜ after the beverage group warned late on Monday about its volume levels. Lehman Brothers cut its profit outlook for Coca-Cola, further damping sentiment.

Shares of Lucent Technology were down $1⅝ at $108⅞ *after the telecommunications group announced its* acquisition of an Israel-based start-up company.

America Online, up $13⅞ or more than 10 per cent at $145⅞, was the most actively traded issue on the NYSE at midday as the company revealed details of its product alliance with Sun Microsystems.

Amazon.com shares gained $8⅞ at $158⅞ as the online bookseller launched its newest addition, an internet auction business.

Online brokerage firms were mixed, with National Discount Brokers down $⅞ to $33 after reporting its quarterly results.

TORONTO tracked Wall Street lower in early trading with weakness within the metals and commodity sectors *overriding solid gains* for banking stocks.

Among leading commodity shares, nickel miner Inco fell C$1.20 to C$30.10, a decline of *5.5 per cent, while golds* giant Barrick shed 5 cents to C$25.60.

Coupled with the early shakeout for US equities, the selling in these areas was enough of a downside push to send the 300 composite index 8.97 lower at 6,643.80 at noon.

Telecoms leader BCE lost 30 cents at C$69.20 while CTV, hit by a share issue to help finance a takeover, lost 80 cents at C$19.50. Online auctioneer Bid.Com International fell 85 cents to $14.75.

Banks in contrast stood firm. Royal Bank of Canada gained C$1.55 to C$71.40 and Toronto-Dominion added C$1.20 at C$69.70. Canadian Imperial hardened 40 cents to C$39.60

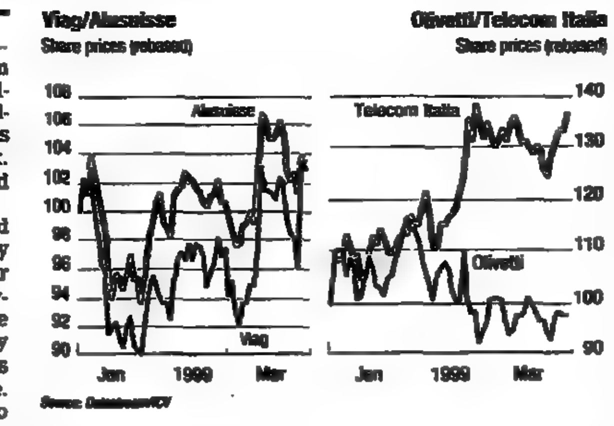
Frankfurt prepares for Easter

EUROPE

Equities traded narrowly in **FRANKFURT** in dull volumes with investors unwilling to take fresh positions *ahead of the Easter break*. The Xetra Dax index ended off 26.01 at 4,841.20.

Rover problems resurfaced at BMW with the company seemingly reopening the war of words with the UK government over aid for the troubled UK car plant by suggesting that negotiations were running out of time. The stock came off €18.30 to €633.20.

Viag shot ahead to €528 on a broker upgrade plus the overnight news that bid talks with Alusuisse Lonza



Source: Datastream/ICV

had been abandoned. Later on the suggestion that negotiations could be reopened, the shares fell back to €513.50, up €2.50 *on the day*.

The FTSE Eurotop 300 index fell 6.06 or 0.48 per cent to 1,250.71. See Euro Prices page.

Merrill Lynch upgraded Viag from "reduce" to "neutral" and also took a long hard look at Metallgesellschaft *which improved 80* cents to €17.30 after the broker upgraded from "neutral" to "buy".

Hugo Boss fell €30 to €1,250 after *a trading statement* from the fashion group outlined new production start-up costs.

PARIS ended a lacklustre session in negative territory as worries over the escalating crisis in Kosovo and a subdued economic growth outlook added to the negative sentiment.The CAC-40 closed down 11.67 at 4,141.98.

Renault, which had rallied sharply in anticipation of its tie-up with Nissan, dropped €1.70 or 4.9 per cent to €33.30 as investors became increasingly wary of the Franco-Japanese venture.

Renault's failure to assume full management control over Nissan could jeopardise the necessary restructuring process, according to analysts. The apparent language barrier was also considered a potential stumbling block.

Drinks companies put in a solid performance, with Remy Cointreau closing up €1.10 at €14.90 on news of a joint distribution venture with Highland Distillers and Jim Beam Brands. Pernod Ricard jumped €3 to €59 on hopes the sale of its Orangina unit to Coca-Cola would win regulatory approval.

Banking stocks bounced on speculation over the outcome of the restructuring battle. Société Générale, which gained €5.90 to €173, *was expected to raise the* stakes for Paribas, which finished €2.30 higher at €103.20. BNP rose €1.15 to €78.65 after its bid for SocGen/Paribas had cleared the last regulatory hurdle.

AMSTERDAM ended little changed in moderate volumes. Options activity was also limited and the AEX index finished at 534.40, down 0.16.

ING added 80 cents at €51.20 ahead of today's results statement and elsewhere among financials Fortis was also firm, improving 90 cents to €35.50.

The profit-takers picked out Royal Dutch which gave up some recent oil-price driven gains, dipping 75 cents to €49.25.

ZURICH retreated after registering early gains and the downward pressure grew as Wall Street opened lower. The SMI index finished 62.2 lower at 7,034.1.

Pharmaceuticals were lower. Novartis lost SFr32 to SFr2,353 while Roche certificates fell SFr125 at SFr17,820 as the group reiterated at its annual media conference it expected good 1999 results.

Algroup fell SFr28 to SFr1,632 with the market unsure how to judge *the failure of its merger plans with* Germany's Viag. However, Ems Chemie shot up SFr205 to *SFr7,260* and Ciba edged *50 centimes higher to* SFr114.25 on market speculation that Algroup might look to those companies for some *form of joint venture. Nestlé gave up SFr45 to SFr2,645.*

MILAN was lower as early interest in Telecom Italia faded and many investors turned their attention to *companies about to report* 1998 results.

The Mibtel index finished 58 lower at 24,715 with a growing number of investors reluctant to become involved ahead of the Easter holidays.

Telecom Italia closed 2.4 per cent higher at €9.90 after opening above €10 following Olivetti's decision to raise its bid to €11.50 per Telecom *share. Just before the close* Olivetti said it had bought 24.4m Telecom ordinary shares, equivalent to 0.5 per cent of capital at a price of €9.7326 per share.

Dealers said they expected Telecom to continue trading at a discount to the bid price because of continuing uncertainty over the prospects for a deal, or Olivetti raising its offer to €12 a share. Olivetti edged up 0.3 per cent to €2.90 while Tim gave up 0.3 per cent at €6.15.

INA closed 1.8 per cent higher at €2.726 and Generali ended up 0.2 per cent ahead of 1998 results.

Fiat put on 0.8 per cent to €2.93 after speculation that the carmaker could sell its auto division. Shares in insurer Toro and robotics group Comau, both units of *the Fiat group, were* suspended for the whole session. After the close Fiat said it was offering €3.25 per share for the 34 per cent *minority holding in Comau* it does not already own. Comau shares closed at €2.82 on Monday.

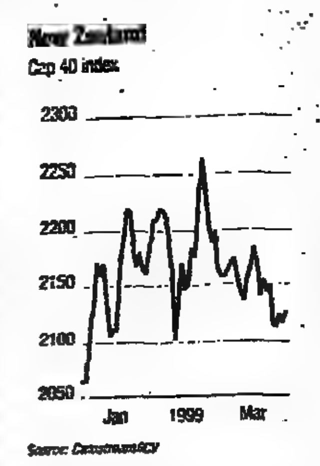
Fiat also said it was offering €9 *for all the preference* and savings shares in Toro.

Written and edited by Michael Morgan, Jeffrey Brown, Florian Gimbel and Peter Hall

MARKET FOCUS

New issues stall Wellington rise

The hunt to find the money for three sought-after issues – which together will absorb about NZ$3.5bn – has stalled the New Zealand stock market, diverting attention from a rapidly improving economy and better earnings *from many companies*.



Source: Datastream/ICV

Finding the money for the three issues – from New Zealand Telecom, Sky City and Contact Energy, and which account for 7 per cent of the total value of the Wellington market – are dominating investor thinking. This has led to selective selling of *many other leading shares*.

As a result, the benchmark 40 capital index has been trading in a narrow band between 2,103 and 2,235 all year, hardening 6 points yesterday to 2,126.

Some of the downside pressure may ease soon with the final payment of Telecom's NZ$1.8m issue of instalment receipts due this week, but the two bigger offers remain outstanding.

Financially troubled Brierley Investments' decision to sell its 66 per cent stake in profitable Auckland casino Sky City, also through instalment receipts, has attracted intense interest.

Brierley shareholders, who have seen the value of their shares fall more than 70 per cent over the past year, jumped at the preferential entitlements offered in Sky City receipts, although many ended up disappointed when their applications were *severely pruned*.

Sky City receipts, listed on Monday, offer an initial return of a 19 per cent. They traded at up to NZ30 cents above the NZ$4 issue price.

The disposal reduces Brierley Investments' debt by a further NZ$476m. This coupled with speculation of an imminent debt restructuring, a tie-up between its subsidiary Air New Zealand and Singapore Airlines, and an improving share price for CK offshoot Thistle Hotels, saw Brierley gain 2 cents to NZ47 cents yesterday, its highest price this year.

Interest is also intense for the third issue, the flotation of state-owned generator Contact Energy – even though nobody yet knows the likely price, dividend yield or little else about it.

Over 250,000 people have registered interest in buying shares ahead of the prospectus release next month. Enthusiasm was fuelled by the announcement last week that US company Edison Mission had paid an unexpectedly high NZ$1.2bn to be the so-called 40 per cent "cornerstone shareholder".

Although this drain on the market appears to have ensured most other leaders have been dull recently, there have been notable exceptions in the retailing and utilities sectors where marked improvements in earnings have been reported.

This in part matches surveys *showing strong rises in* business and consumer confidence following slightly easier monetary policy settings by the central bank.

Latest data show economic growth running at about 3.3 per cent and inflation negligible. Opinion polls also suggest growing confidence in the re-election prospects of the business-oriented National government amid talk of tax cuts.

Terry Hall

Buenos Aires cautious ahead of Fed decision

BUENOS AIRES opened firm in cautious trade as investors paused after Monday's climb to watch US markets and their reaction to a US *Federal Reserve* meeting.

The Merval index was 5.02 higher by midsession at 420.53, adding to Monday's 2.1 per cent rise, which was led *mostly by* a 5.6 per cent surge in market benchmark Perez Companc on speculation that it was up for sale. By midsession the share was another 0.16 pesos higher at 4.78 pesos.

MEXICO CITY was flat at midsession, held back by profit-taking after Monday's gains. The IPC index was just 0.38 ahead at 4,845.81.

Traders said the bolsa was likely to remain subdued with investors absent for the *Easter holiday*.

Financial group Bancomer was the most active issue in early trade edging 0.02 pesos at 3.19 pesos.

Jo'burg down but off its lows

SOUTH AFRICA

Late bouts of bargain-hunting helped Johannesburg to close off its lows although analysts said the market's fundamentals were still positive, with the outlook for a cut in interest rates further bolstered by *the latest* economic data.

The overall index finished 16.1 weaker at 6,422.9 with industrials losing 19.5 to 7,520.4. The recently re-jigged gold index finished 33.0 or 1.2 per cent higher at 2,873.6.

Iscor jumped 10 cents to R1.60 as the global outlook *for metals* improved, while Anglo gave up R16.40 to R211 as the market mulled its move to buy out minority shareholders in Amgold and Anamint and de-list the companies. Amgold soared R66.60 to R295 while Anamint was R18.20 higher at R128.

Data send Tokyo below 16,000

ASIA PACIFIC

Dismal economic data, including Japan's worst-ever unemployment figures, sent **TOKYO** below 16,000 despite an early rally following developments on Wall Street *writes Naoko Nakamae*.

Shares fell as the weakness of the economy was highlighted for the second day in a row. Unemployment rose to a record 4.6 per cent, after Monday's announcement of poor retail sales and industrial production figures.

The Nikkei 225 Average fell 149.72 or 0.94 per cent to 15,859.12 after trading between 16,184.54 and 15,805.69. Other indices were little changed: the weighted Nikkei 300 index lost 0.19 or 0.07 per cent to 254.49, and the Topix index rose 0.57 or 0.04 per cent to 1,269.34. Volume was a modest 464m shares, with 760 declining issues and 452 rising.

The weakening yen boosted export-related shares. Fujitsu, the most heavily traded stock of the day, surged 6.57 per cent or Y122 to Y1,978, while Hitachi gained 2.51 per cent or Y21 to Y859. Rival Toshiba was also up 1.36 per cent or Y11 to Y821 and Sharp rose 2.33 per cent or Y28 to Y1,237.

Computer software provider, Softbank, continued to climb, rising 6.09 per cent to Y780 to Y13,580. Last week it said it would join Microsoft and Yahoo Japan selling cars over the internet.

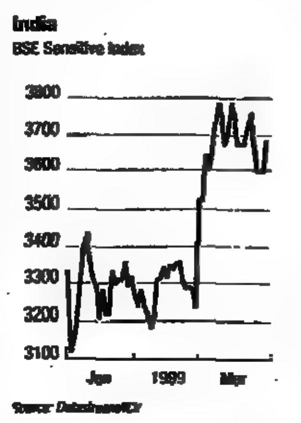
But the securities sector continued to fare badly, falling 1.41 per cent. Nomura Securities dropped 1.57 per cent or Y20 to Y1,250, while Nikko Securities fell 4.36 per cent or Y25 to Y549. But Daiwa Securities was up 0.16 per cent or Y1 to Y636.

In Osaka, the OSE index was up, gaining 97.96 to 16,919.56.

SEOUL shot up 2.8 per cent as domestic investors were encouraged by Wall Street's overnight surge. The composite index rose 16.98 to 618.05.

Following days of arbitrage selling, domestic institutional investors moved back into blue chips in a bid to raise the value of their holdings ahead of the fiscal year-end on March 31.

Korea Electric rose Won1,350 or 4.7 per cent to Won30,350, while Samsung Electronics gained Won2,500



Source: Datastream/ICV

to Won95,000. SK Telecom hit an all-time closing high, up Won23,000 at Won830,000.

HONG KONG climbed 2.4 per cent as strong futures-led buying followed early gains sparked by Wall Street.

The Hang Seng index closed up 251.74 at 10,940.21 as the expiry of March Hang Seng index futures helped to push the cash market higher. Turnover shot up to HK$7.1bn from HK$3.7bn on Monday.

The market paused briefly after Tokyo closed lower but the Dow's rally and positive sentiment towards local property developers, spurred by encouraging apartment sales, proved pervasive.

Cheung Kong gained HK$3.75 or 4.9 per cent to HK$58.75. Its affiliate, Hutchison Whampoa, rose HK$3 or 5.1 per cent to close at HK$61.50 amid speculation that the two would announce an acquisition or investment.

BOMBAY was another 2.4 per cent winner as investors picked up index-based issues that went into a no-delivery period ahead of compulsory dematerialised trading from next week. The BSE-30 index rose 85.91 to 3,683.49.

The market regulator has stipulated that from April 5, 64 shares will be traded in demat form, with the shares held in a central depository and share transfers notified electronically. The no-delivery period allows more time to square deals.

SINGAPORE *moved* higher as the buyers renewed their enthusiasm for property shares. Demand for sector leaders sent the *property index up 4.8 per* cent to a 12-month high.

The Straits Times index ended 20.58 higher at 1,518.08.

Recovering from past mistakes

Tanzania is undergoing a transformation but the process is not without pain, say **Mark Turner** and **Michael Holman**

Once the standard-bearer of African socialism, today an advocate of market driven reform, Tanzania is undergoing a transformation.

The one-party system and state-controlled economy under founding president Julius Nyerere has given way to pluralism and donor-backed reforms of president Benjamin Mkapa, and the results are remarkable.

The mining sector is booming, tourism is growing, sold-off state companies are thriving, and the government's economic discipline has won the praise of the IMF.

But recovering from past mistakes while keeping to the IMF's tough terms is a painful process for one of the world's poorest countries.

Despite relief on its external debt, service payments remain crippling. Erratic weather conditions saw floods last year, and threaten a serious food shortage this year.

Management is weak, the civil service is inefficient; phone lines are bad, roads are poor, illiteracy is increasing, health care is declining. Corruption is widespread, and implementation of privatisation is behind schedule.

Above all, Tanzania still has to overcome the legacy of the failed policies of the early post-independence years: nationalisation which frightened off investors, compulsory and badly planned regrouping of peasant families into villages which hit agricultural output, and state projects which sapped the budget.

Ironically, many of the donors who now monitor Tanzania's progress have a shared responsibility for those costly failures, funded by loans for which the country's population is now paying a high price.

The World Bank, Tanzania's biggest donor, belatedly acknowledged this responsibility in a 1990 internal report appraising the Nyerere era.

"Tanzania's unprecedented access to concessionary flows of external capital has allowed it . . . to maintain a high rate of largely ill-conceived and uneconomical industrial investment," wrote the authors.

"The Bank's continuous exhortation of the donor community to provide assistance . . . has sustained a constant inflow of official aid that helped maintain irrational domestic policies," was one of the devastating conclusions.

The past has caught up, and donors are once again playing a dominant role, this time insisting that Tanzania maintain a level of debt servicing which Daniel Yona, the country's finance minister, argues it cannot afford.

"During the first and second phase governments (the Nyerere and Ali Hassan Mwinyi eras), we were putting money into services and never paid our debt. Now we are paying our debt and not putting in money any more."

Annual repayments of $270m on its $7.4bn medium and long-term debt (94 per cent of GDP last year) are taking a heavy toll. The government spends four times as much per capita on debt servicing as it does on primary education. More than 2m children are not in school, and the numbers are rising, as pressure from donors and the IMF forces the introduction of fees which are beyond the reach of many Tanzanians, whose average per capita income is less than a dollar a day.

Yet, for all these concerns, there is still a sense of opportunities being grasped and potential slowly being realised in a country rich in natural resources.

While growth this fiscal year is expected to reach only 3.3 per cent – below earlier predictions of 4 per cent – it is forecast to rise to above 5 per cent in the following two years. Inflation is down to below 10 per cent, from almost 27 per cent in 1994-5.

A gold-rush around Lake Victoria is set to boost foreign exchange earnings by 50 per cent once full-scale production begins. Tourist arrivals are increasing, and investment in the sector is growing. Agriculture, despite continued difficulties in many traditional crops, is showing signs of revival.

Several infrastructure projects are also on the way – a $250m hydropower facility at Kihansi, a pipeline from Dar-es-Salaam to Mwanza, and – after years of stalling – a big gas project from the southern island of Songo Songo is close to being revived.

Tanzania's geographical location is also proving a boon. South Africa in particular is courting the country as a gateway to East Africa and the Great Lakes region, building on Tanzania's membership of the Southern African Development Community. Trans African Railways has helped secure a rail and ferry route all the way from Johannesburg to Kampala, Uganda.

The country will also be a founding member of the revamped East African Community this summer, committing itself to tariff reductions and, in the longer term, monetary union.

But what the country lacks, say local analysts, is a political vision which will convince its population that the pain of current reforms will be repaid by future prosperity.

Haroub Othman, a political commentator in the university of Dar-es-Salaam, is concerned that social tensions are not being properly addressed. He paints a worrying picture of growing strains between Islamic and Christian communities, resentment of what is seen as domination of the economy by foreigners (who in the eyes of some include Tanzanian Asians) and rising wealth disparities.

Industrial unrest is increasing as state enterprises restructure. "We need a new vision," says Professor Othman. "It is one thing to be poor, but to know that the administration cares. But if the administration doesn't show concern, people have no hope."

So far, multi-party politics have not engendered the debate that opposition figures would have hoped for. Elections are next year but there is no obvious alternative, on the mainland at least, to the ruling Chama Cha Mapinduzi (CCM) party and Mr Mkapa, as opposition parties continue to fight among themselves.

The country's constitution, which has changed little since 1977, is still essentially geared towards a one-party state. Although a review process has been put into place, which has involved a large number of individuals active in civil societ, critics are demanding a national convention to tackle some fundamental issues.

The most sensitive of these is the mainland's relationship with the islands of Zanzibar and Pemba. At present, Tanzania has a two-tier government, one dealing with the mainland and the Union, and another dealing with domestic Zanzibari affairs. The CCM in both governments have made it clear that they want things to stay as they are, but there are calls on Zanzibar for a three-tier government (union, island and mainland) and considerably more autonomy. Ever since the 1995 elections, when President Salmin Amour won amid wide-spread accusations of vote-rigging, the island has been plagued by arguments between the CCM and the opposition Civic United Front.

At the heart of many of Tanzania's problems, however, and critical to its future, is the struggle for the resources to fund recovery while meeting the terms of the all-powerful donor community.

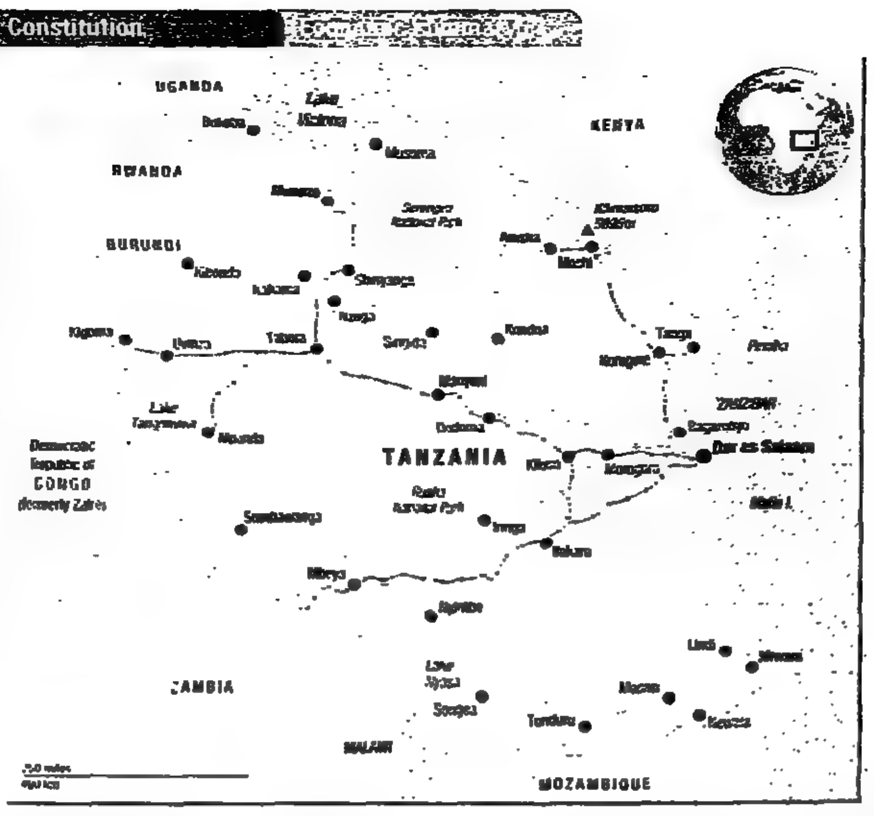
Mr Yona sums up his country's predicament. "Everyone – the World Bank and donors – says we are doing very well in macro-economics," says the finance minister. "But how can I explain this to my father or my brother? Who eats macro-economic figures?"

FT file

Constitution

- Official name: United Republic of Tanzania
- Form of state: Republic, formed by the 1964 union of Tanganyika and Zanzibar
- Legal system: Based on English common law, the 1977 Union and 1985 Zanzibari constitutions, as amended
- National legislature: National Assembly, comprising 269 members (232 directly elected and 37 women appointed); elected members are chosen by Union-wide adult suffrage every five years. Zanzibar has its own House of Representatives of 59 members (nine women appointees), which legislates on internal matters
- National elections: October-November 1995 (legislative and presidential), next elections due in 2000 (legislative and presidential)
- Head of state: President (currently Benjamin Mkapa), elected by universal adult suffrage every five years
- Prime minister: Frederick Sumaye
- National government: The president, vice-president and Council of Ministers; last cabinet reshuffle September 1998

Sources: Economist Intelligence Unit, Bank of Tanzania, World Bank



- Area: 883,749 sq km
- Languages: Kiswahili, English
- Currency: Tanzanian shilling (TSh)
- Exchange rate: 1998 average $1=TSh637.68; March 23 1999 $1=TSh691.00

Population: 33.3m (1999 estimate)

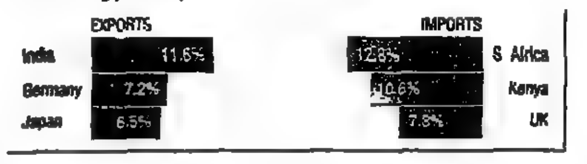
- Main towns & population (1988 census)

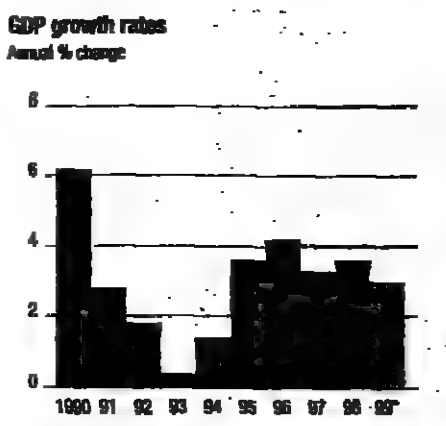
Dar es Salaam (capital)	1,360,000
Mwanza	223,000
Tanga	187,200

Economic summary

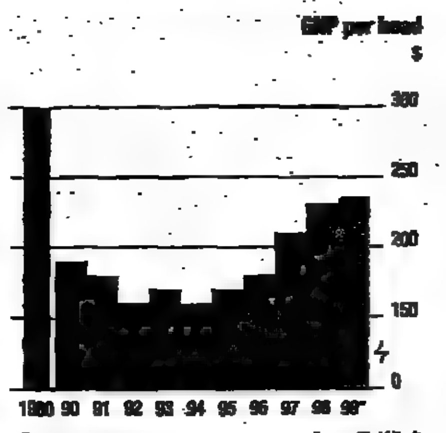
	1998	1999 (forecast)
Total GDP ($bn)	8.3	9.3
Real GDP growth (annual % change)	3.6	3.0
GDP per head ($)	230	235
Inflation (average annual % change in CPI)	13.5	12.0
Industrial production (annual % change)	6.4	2.4
Money supply, M2 (annual % change)	4.6	8.2
Foreign exchange reserves ($m)	540	560
Government budget balance (% of GDP)	-6.2	-6.0
Total foreign debt (% of GDP)	100.4	90.4
Current account balance ($m)	-808	-800
Merchandise exports ($m)	676	650
Merchandise imports ($m)	1454	1500
Trade balance ($m)	-778	-850

Main trading partners (share of total trade to world 1997)





Source: Bank of Tanzania and FT estimates *Forecast



*Forecast Source: World Bank

The balance of payments

($m)	1996	1997	1998*	1999**
Exports	782	717	676	658
Imports	1213	1338	1454	1500
Trade deficit	-451	-621	-778	-800
Net invisibles	-344	-365	-380	-400
Transfers	340	320	380	500
Current account	-459	-665	-800	-800
Net capital	218	350	400	500
Overall balance	-245	-315	-400	-300

Source: Bank of Tanzania, IMF and FT estimates * Estimate ** Forecast

ECONOMY by Tony Hawkins

A lion not yet ready to roar

The balance of payments is in very poor shape, hugely dependent on aid and debt relief

When a recent investor describes Tanzania as "the rising star in Africa", it is time to sit up and take notice.

Had such a comment come from a donor agency, World Bank official, or emerging markets "analyst", it could be shrugged off as a self-serving assessment by people seeking a success story.

But, when it comes from a hardheaded private investor who has put more than $70m into a recently privatised business that is more than *meeting its financial targets*, it carries far greater weight. The company, Tanzania Cigarette, was privatised just over three years ago when US multinational R J Reynolds Tobacco International bought a 51 per cent stake.

Nor is its assessment unique. Emka Emuwa, of Citibank Tanzania, is also bullish, while Danie Niemands, chief executive of Tanzania Breweries, controlled by South African Breweries, says the company's market capitalisation has quadrupled from $50m five years ago to more than $200m today.

There are other upbeat indicators, too. Tanzania now ranks ahead of Ghana in attracting foreign exploration funds in non-ferrous metals in sub-Saharan *Africa, accounting for more* than 14 per cent of the total.

Non-traditional exports, which will increasingly be driven by mining, now exceed traditional exports of coffee, cashews, cotton, tea and tobacco.

Despite this, no one is suggesting that Tanzania's slow recovery from its unhappy experience as a command economy for a quarter of a century constitutes any kind of economic miracle.

"To be classified as such is the kiss of death," says a young Tanzanian entrepreneur, adding ruefully: "Look at Uganda."

Ironically, too, the smaller the business the greater the complaints about bureaucracy. Disincentives appear to be negatively correlated with firm size, so those small-scale firms are a good deal less enthusiastic than the high profile companies.

Although some, including Bank of Tanzania governor Daudi Ballali, believe the economy could grow at 8 per cent annually – double its recent rate of around 4 per cent – the country's consensual management style and very low savings levels point to a long-run expansion rate closer to 5 per cent.

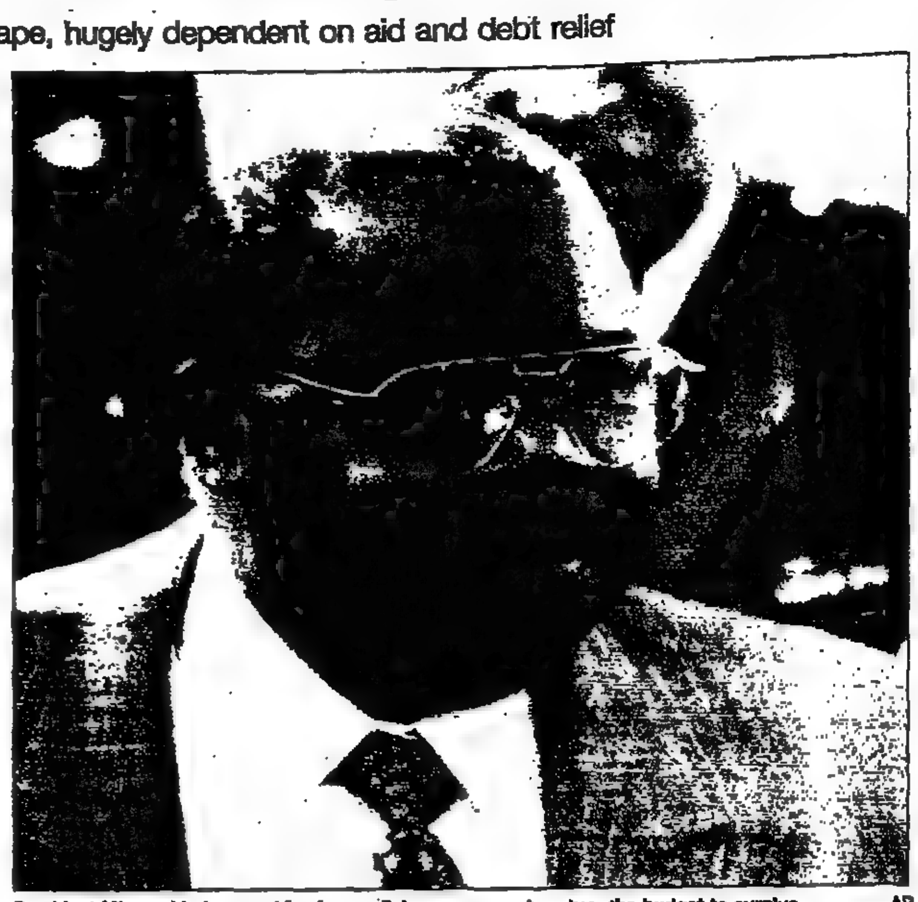
It is not just that decision-making and implementation tend to be cautious, in keeping with consensus-building, but also that the capacity, institutional and human as well as physical, for East Asian growth rates simply is not there.

The key constraints on growth are infrastructure – poor roads, costly electricity, inadequate water – the high cost of doing business and the scarcity of managerial and technical talent.

Natwar Gotecha, of Tanzania Cigarettes, says his company uses the internet to track down and recruit Tanzanian graduates from abroad. Skills of all kinds will continue to be a serious bottleneck for the foreseeable future, the more so as most avenues of business become more knowledge-intensive.

While the government is *working to make Tanzania a* more business-friendly environment, progress is slow. Nearly 30 years of socialism has left an indelible imprint in the form of an anti-market culture that is breaking down only slowly.

Aid dependence, has stood at more than $1bn annually since 1990 and at present accounts for 14 per cent of GNP, and its hangover continues in the twin forms of an unsustainable burden of foreign debt and emasculated institutional capacity.



President Mkapa: his team put in place policies necessary to return the budget to surplus AP

A bloated bureaucracy still seeks to intervene whenever it can, both to justify its existence and to exploit what is politely called economic rent, but in reality is largely petty corruption. And there is a residual suspicion of private enterprise, especially if it is foreign-owned.

Changing this culture is a generational challenge, evident in the fact that it is the younger, often foreign-educated Tanzanians, who are most committed to economic reform. In turn, this means that macro-economic stability, which Tanzania is well on the road to achieving, is only the beginning of a long climb.

True, there has been some impressive, *if spotty*, evidence of supply side responses to liberalisation, most dramatically in the mining sector but also in *cashew nuts and more* recently tobacco.

There are grounds for caution, too, in the sense of *déjà vu*. In several respects Tanzania today is *much where it* was in 1992 after the first six-year phase of economic reform.

Then, as now, relative macro-economic stability had been achieved. Inflation had slowed, the budget deficit had swung from a deficit of 9 per cent of GDP to a marginal surplus after grants, reserves had reached three months' import cover, compared with two weeks in 1986, and GDP was growing at 5 per cent.

Then it all began to go wrong. Mr Ballali says: "Financial discipline began to dissipate and corruption became deeply rooted." The government's commitment to reform was "suddenly abandoned".

The share of government revenue in GDP fell from more than 14 per cent to 10.6 per cent, reflecting huge discretionary exemptions from import duties and taxes, while spending increased to 20 per cent of GDP.

Donor funds, and with them development spending, dried up and debt arrears accumulated both domestically and externally.

The change came when President Mkapa's administration took office at the end of 1995. The new team put in place the policies necessary to return the budget to surplus and reduce inflation to single digits in January for the first time in 23 years.

So long as the public sector inhibits, rather than facilitates, economic growth, the economy will underperform

Meanwhile, despite adverse climatic conditions, GDP growth has averaged 4 per cent over the past three years. The risk now is that, as in 1994-95, these hard-won gains will again be dissipated in the run-up to the elections due late next year.

But, while keeping its nerve on macro-economic policy may be the top short-run priority, arguably it is structural change that is the most important challenge now facing Tanzania.

So long as the public sector inhibits, rather than facilitates, economic growth, the economy will underperform. That is why successful privatisation is now the government's most important task.

The 1998-2001 Policy Framework Paper sets up an intimidating menu of far-reaching policy reforms including privatisation, deregulation, civil service reform, continuing fiscal and monetary restraint, restructuring the utilities, reforming agricultural marketing and improving delivery in the social sector, especially health and education.

The timetable looks unrealistic, not just because of approaching elections but also bureaucratic antipathy towards privatisation on the one hand and sheer paucity of managerial talent on the other.

There are also nagging questions over the depth of official commitment, reflected in a "perils of Pauline" tendency to let targets slip until the last possible moment before donors cut off funds.

In the private sector there is a feeling too that restraint has gone on too long and that, after years of pain, it is time to focus on gain in the form of significantly faster growth, lower real interest rates and a much more effective tax system than at present.

It is also essential to get away from donor dependence. Foreign aid performs two roles, closing the structural balance-of-payments gap – now $800m a year – and financing public sector investment.

Since 1990, net aid has averaging more than $1bn and financed more than 90 per cent of investment. While this ratio is far from Africa's highest – Rwanda comes in at more than 500 per cent – it highlights the necessity for far greater private sector investment than hitherto.

Fortunately, foreign direct *investment is picking up*, averaging $140m a year and up from virtually nothing in the early 1990s. This is likely to continue to increase, fuelled by a combination of privatisation and mining development.

But, with the trade gap estimated to have doubled in three years to a *forecast* $900m this year when substantial food imports will be needed because of the drought, the balance of payments is in very poor shape, hugely dependent on aid and debt relief.

Despite this the real effective exchange rate has *appreciated 17 per cent over* the past three years, suggesting that devaluation would contribute to a healthier external payments situation while also giving non-traditional exports a lift.

Tanzania is pushing hard for Heavily Indebted Poor Country eligibility. This would help, though not for a few years. Foreign investment and export-led growth in mining, tourism and agriculture are the keys to faster expansion, but without radical public sector restructuring and a *more* business-friendly culture, Tanzania's hopes of becoming an "African Lion" are unlikely to be realised in the medium term.

DEBT by Tony Hawkins

Running in a 6-year race

External debt has been rescheduled on 5 occasions

Keeping in the IMF's good books is essential if Tanzania is to benefit from the Heavily Indebted Poor Countries *initiative*.

Medium- and long-term foreign debt is put at $7.4bn, or 94 per cent of GDP in mid-1998. Some 40 per cent is owed to *multi-lateral* creditors such as the World Bank and a further 40 per cent to bilateral donors.

External debt has been rescheduled five times since 1986, the most recent being the January, 1997, agreement on so-called Naples terms.

Without debt relief, debt service would be running at more than $800m a year, well above exports of less than $700m.

After full debt relief, debt service in 1999-2000 is projected at $274m, or 18 per cent of exports of goods and services.

But, while Tanzania has obtained very substantial *debt relief, in the absence of* an HIPC debt reduction its debt stock will continue to increase from the present $7.4bn to $10bn by 2005 and $16bn by 2015.

However, because the economy is expected to grow substantially faster than debt accumulates, the debt to GDP ratio will fall from 94 per cent to around 50 per cent.

HIPC, says finance minister Daniel Yona, is a "six-year race".

If he can satisfy the IMF and the World Bank by sticking close to the programme targets in 1999 – though some slippage is *inevitable* – he will nudge his country towards HIPC eligibility.

But the country would still have to wait a further three years for debt to be forgiven under HIPC unless the donor community decides to accelerate the programme, as it is currently under pressure to do from Germany and the United Kingdom.

PRIVATISATION by Tony Hawkins

Modest progress towards vital goal

A lack of local resources and the need to attract foreign capital means the programme is expected to last well beyond 2001

Of all the policies for Tanzania's transition from a command to a market economy, privatisation is overwhelmingly the most important.

In the heyday of socialism at the end of the 1970s, Tanzania had one of Africa's largest parastatal sectors. In 1990 public enterprises accounted for almost a fifth of GDP, including 27 per cent of non-farm GDP, a quarter of formal sector employment, 40 per cent of total investment and one-third of bank lending.

Today, few doubt that state ownership contributed substantially to the country's dismal economic performance in the 1970s and 1980s, in turn fuelling expectations that privatisation has a crucial role to play in preparing the economy for the 21st century.

Progress to date has been only modest. Although the numbers look impressive – 270 of the targeted 395 parastatals have been processed since 1990, raising $300m in revenue from more than 100 outright sales – the most important enterprises remain in the state's hands.

Not only that, but more than a third of the "privatisations" have, in fact, been liquidations, with another 10 per cent handled by way of leasing agreements and management contracts.

The Presidential Parastatal Sector Reform Commission's five-year mandate ran out at the end of 1998 but was extended for a further year.

Under the 1999-2001 Policy Framework Paper (PFP) agreed with the IMF and World Bank, the privatisation programme should be completed by 2001, though government officials doubt whether this onerous target is really attainable.

Indeed, several of the targets, not just actual sell-off dates but those such as the adoption of "comprehensive" policies for public enterprise debt and retrenchment strategies by next month, look extremely ambitious.

Tanzania Telecommunications Company is to be brought to "point of sale" by May, but some in the private sector warn that this privatisation will take a year or more to complete. There is a question mark, too, over the government's ability to conclude the sale of 70 per cent of the shares in the National Bank of Commerce to South Africa's ABSA group by the end of March.

Far from accelerating, there are good reasons to believe that the process might now slow. For a start, unbundling and restructuring some of the utilities is likely to require legislation, which will be a time-consuming process. In addition, privatising utilities means putting appropriate regulatory authorities into place, which will also draw out the process.

Four other problems loom large. As the elections, scheduled for late 2000, near, not only will the politicians have other matters on their minds, but they are likely to be more cautious about making even mildly controversial decisions.

This is all the more important because of the understandable public perception that privatisation really means "foreignisation".

Most of the large parastatals carry substantial debt burdens which must be tackled before the enterprises can be put on the block. For many of them, too, a great deal of hard administrative grind will be needed to produce a set of accounts acceptable to potential buyers, and retrenchment packages are a delicate issue.

In the past there has been no uniformity and as large, overmanned enterprises are sold off, so the labour unions, already flexing their muscles in challenging the proposed NBC sale to ABSA in the courts, are likely to press demands for more generous terminal benefits.

Given the poverty of resources, especially the lack of depth of absorptive capacity in the country's still-embryonic capital markets, privatisation is closely linked to the attraction of foreign capital, the development of "collective" stock market instruments such as unit trusts and the creation and funding of the planned privatisation trust to warehouse parastatal shares for eventual sale to Tanzanian investors.

In the face of such tight constraints, the Tanzanian authorities have eschewed the fixed targets of what proportions of equity should be retained by the state or held by local investors found in many other African countries, preferring flexibility and pragmatism.

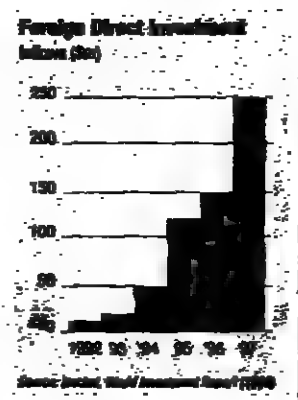
Whatever the PFP targets, the reality is that similar flexibility in the timetable is likely, especially given the relative scarcity of the necessary technical and administrative talent.

Accordingly, it is hardly surprising that Tanzanian officials expect the programme to last well beyond the targeted 2001.

Privatisation timetable

Task	Date
Remove 50 additional parastatals from government control	2000
Bring Tanzania Telecoms Co. to "point of sale"	May, 1999
Remove monopoly of National Shipping Agencies Corp.	April 1999
Deregulate Tanzania Central Freight Bureau	March 1999
Adopt Comprehensive Policy on retrenchment compensation	March 1999
Adopt Comprehensive Policy on parastatal debt	April 1999
Power sector regulatory plan to be approved by Government	June 1999
Adopt Power Sector Restructuring programme	Dec 1999
Divest Tanzanian-Italian Petrol. Refinery	1999/2000
Concession Tanzania Railways Corp.	June 2000
Concession Dar es Salaam Container Terminal	June 1999
Divest public mining companies	1999/2000

Source: Tanzania Enhanced Structural Adjustment Facility Policy Framework



INVESTMENT by Tony Hawkins

Critical shift in policy

The country has had more than its fair share of aid and cannot afford to ride its luck any longer

Three years ago an Investor Roadmap to Tanzania, researched by international consultants, painted an intimidating picture of a red tape-riddled, bureaucratically dominated economy.

This study, says Emmanuel Ole Naiko, investment promotion director at the Tanzania Investment Centre, forced it to rethink its strategy, to streamline procedures and to shift focus from a screening agency that inhibits decisions to a facilitative agency that promotes investment.

How successfully it is proving to be is another matter. Officials claim they are giving investment certificates, which are not mandatory but open the door to some generous tax incentives, in less than 14 days.

Critics say that while this might apply to large firms the small investor waits a good deal longer.

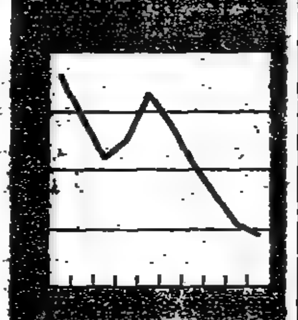
The centre responds to such criticisms with figures showing it has issued $3.6bn worth of investment certificates since 1990, covering nearly 1,100 projects with the potential to create 175,000 new jobs.

Most projects are in the manufacturing sector, followed by tourism and agriculture, but while mining is small in numbers, it looms large in terms of project size.

Britain, South Africa, China and Canada are among the leading investors. Actual investment by the private sector is substantially less, averaging $85m annually during the 1990s, suggesting that fewer than a quarter of investment certificates have so far been implemented.

Investment promotion is critical, not just because of the country's unexploited potential, but also because at present domestic savings amount to a tiny 7 per cent of GDP. Investment, estimated at less than 20 per cent of GDP, must therefore be largely funded by foreign capital, which hitherto has been dominated by official assistance.

Fortunately, that is changing. In the three years 1995-97 inward private investment exceeded $420m, which is just as well since Tanzania has had more than its fair share of aid and cannot afford to ride its luck any longer – the more so now that aid is unlikely to be forthcoming in future at levels previously seen.



BANKS by Tony Hawkins

First steps on road to market economy

The full impact of the switch from a socialist to a capitalist banking has still to be felt

Although privately owned banks have taken off in Tanzania, the full impact of the switch from a socialist to a capitalist banking ethos has still to be felt. It will come with the imminent privatisation of the state-owned National Bank of Commerce (1997).

South Africa's ABSA banking group is negotiating to buy 70 per cent of the equity in the partially recapitalised NBC, which according to some in the banking industry, still has a large non-performing lending book.

So much so, in fact, that some bankers believe it has negative net worth in excess of TSh5bn. Its sale is central to meeting IMF benchmarks, but according to finance minister Daniel Yona, even if the ABSA talks were to founder – and government officials insist they are going to plan – Barclays is waiting in the wings to make a counter-bid.

With the sale of NBC – the government plans to sell off the 30 per cent minority stake eventually to Tanzanian investors through the stock market – and "concessioning" of the National Microfinance Bank to foreign management under a management contract, banking privatisation will have been completed.

Last year's launch of a stock exchange, though as yet just two previously state-owned companies are listed, marks another important step down the road to a market economy.

Turnover is tiny, not least because the market remains closed to foreigners, though this can be expected to change soon.

After 25 years of state ownership there is no investment culture as such and, while there are hopes that accelerated privatisation will ignite stock market activity, the reality is that the pool of savings to invest in equities is small, as is the knowledge base and flexibility of institutional investors.

Although there are 17 operating banks, it is a tiered market with multinationals and foreign business relying heavily on the international banks – Citibank, Standard Chartered and Stanbic of South Africa – which between them account for 30 per cent of the market.

The state-owned banks and the Co-operative and Rural Development Bank, privatised in 1996, have an estimated 45 per cent to 50 per cent market share, leaving the rest in the hands of a dozen small-to-medium institutions.

Small business, politicians, the central bank and government officials complain that "excessive" spreads of eight to 10 percentage points between deposit and lending rates mean the market is not working properly.

Not so, say the international banks, pointing out that the differential between the rate they have to pay for wholesale funds in the market and prime lending rates is closer to 4 per cent.

The average yield on treasury bills is down to 9 per cent from more than 13 percent six months ago, reflecting the slowdown in inflation from almost 30 percent at the end of 1995 to a 23-year-low of 9.1 per cent in January.

Whether this trend continues will depend on how long ministers are prepared to resist demands for reflation; which are likely to intensify with the approach of next year's elections.

AGRICULTURE by Mark Turner

Vital sector at mercy of the weather

With the exception of tea, most crops are only just at the production levels of 30 years ago

For all the recent optimism that mining, tourism and eventually manufacturing will drive Tanzanian growth, agriculture remains the bedrock of the country's economy and provides the only source of income to the majority of its population.

For most Tanzanians, farming will remain the only sector that matters. Agriculture accounts for 50-60 per cent of GDP and provides a livelihood for 85 per cent of the country's 30m people.

Unfortunately, most farmers have seen little benefit from Tanzania's recent emergence from the economic wilderness. Rural poverty is increasing and services such as health and education are in a dreadful state.

Buffeted by three years of drought, flood and drought again, Tanzania faces serious food shortages this year in regions where people's sellable assets are dwindling fast.

According to the World Food Programme, well over a million people are in need of emergency assistance, particularly around Dodoma and Singida, as the maize crop collapses.

This terrifying state of affairs is driving the government to have a serious think about farming. "First of all we must be self-sufficient in food, that is the paramount aim," says William Kusila, the recently appointed minister for agriculture.

"Unfortunately we are not there yet. We must also increase production in cash crops. In past years production of most crops has gone down."

There is evidence that some export crops such as tea, cashew nuts and horticulture are showing signs of growth. The country produced more than 93,000 tonnes of cashew nuts last year according to the ministry of agriculture, an increase of 50,000 tonnes over five years.

Tobacco production was estimated at 35,000 tonnes, up from 22,000 in 1992-93, and tea production stood at more than 26,000 tonnes against 21,000 in 1992-93.

But it is notable that, with the exception of tea, most crops are only just at the production levels of 30 years ago, when the country's population was around a third of today's.

Coffee and cotton, the largest agricultural export earners, have respectively declined and stagnated – with lower quality – over the past half decade, according to the ministry of agriculture. Sisal production is around a tenth of levels of 30 years ago.

"For the past few years production in most crops has gone down," says Mr Kusila. "The government drive is to reverse the trend."

The challenges he faces are enormous. Tanzania has more than 40m hectares of arable land but only 6m are cultivated.

Rich pickings but for whom? Sean Sprague/ Panos Pictures

Only 15 per cent of the country has access to water, and a lack of controlled irrigation means that crops are almost totally dependent on the weather.

Poor rural infrastructure makes marketing very difficult and discourages young entrepreneurs from investing in farming.

Since the liberalisation of the agriculture sector in the early 1990s, which allowed private industry to step in where parastatal marketing boards used to control prices and provide subsidised agricultural inputs, the farming sector, despite improvements in farm gate prices as a percentage of world market prices, has faced huge problems in obtaining sufficient fertilisers and pesticide.

Private traders, particularly in tobacco and cotton, did initially try to advance the cost of inputs for guaranteed sales later, but farmers reneged on the deal and traders are now holding back.

The government is experimenting with a number of schemes to overcome this, including a voucher system in coffee, but their effectiveness is still not clear.

A serious dearth of microfinance, despite the establishment of a micro-finance bank from the old National Bank of Commerce, makes it next to impossible for farmers to invest in modern machinery.

Commercial banks are not interested: and despite increasing activities by some non-governmental organisations such as Pride Tanzania, there is no rural credit guarantee system.

Roads are in a mess following the El Niño rains, and extension services have largely disappeared.

Daudi Ballali, the central bank governor, says that if the government wants to stimulate agriculture and the moribund agro-processing industry it must start thinking seriously about incentives.

"We have to do a lot of homework," he says. "The incentive structure is not there. When we abolished the marketing boards it was assumed the private sector would jump in, but it is not taking the opportunities."

Farmers by themselves have few collective bargaining structures, and the co-operative system is beset by corruption and poor accounts.

Satish Soochak, who exports around 15 per cent of the country's coffee and has dealings in most other cash crops, says that his long-term strategy for coffee is to move into the gourmet business and to focus on a niche quality product rather than high quantity.

His message to the government is to leave the farming sector as free from interference as possible.

But, while Mr Kusila agrees that a free farming sector is a "good philosophy in the long term", he is wary of letting go altogether at this stage. "Farmers are not yet used to bargaining for their rights. Initially you need a mechanism to protect their interest," he says.

MINING by Mark Turner

Another time, another gold rush

In spite of the decline in gold prices, in the medium-term the Tanzanian sector is on a roll

At the Tilapia hotel bar, Mwanza, on any Saturday night there are grizzled faces, Australian, South African and Canadian accents, grumbles about the uncertainty of gold prices, and bouts of raucous laughter.

The vibe is unmistakable – this is gold town, Tanzania, a modern-day Klondyke where only the satellite sport channel and recycled pop music betray the late 1990s setting. Mwanza, situated on the southern shore of Lake Victoria and a natural point of entry for mining equipment shipped via Kenya, is the de facto capital of an industry that has seen a remarkable take-off over the past two years.

With more money spent on non-ferrous minerals exploration last year than any other African country, the first commercial gold mine starting operations in November, and the prospect of another four to seven projects coming on-stream over the next year and half, Tanzania is undoubtedly flavour of the month in African mining circles.

'Our strategy is to encourage joint ventures, and to build up the service industry'

Exploration spending this year is expected to drop below the $58m of 1998, to around $45m, but mine development spending could soar from around $50m in 1998 to $400m over the next two years. The first project to start operations – Golden Pride, operated by Australia's Resolute in joint venture with Ashanti (which bought out Samax Resources last year) – boasts an estimated resources of 2.4m ounces and is expected to produce 180,000 troy ounces a year.

The $350m Bulyanhulu project, now owned by Barrick which recently bought out Sutton Resources, is a world class deposit with 9m ounces, and – although underground – boasts a highly attractive grade of 12-13 grammes/tonne, and should start operations over the next year.

Ashanti Goldfields, East Africa Mines and Anglo-American are all exploring and developing another contained 9m odd estimated resources around the Geita and Ramagaza Greenstone belts, and Afrika Mashariki – once a legal dispute over land is settled – is expected to press ahead with the Tarime gold project in northern Tanzania, with well over a million troy ounces. Anglo-American's nickel project in Kabanga, which also contains copper and cobalt, is also expected to start operations over the next two years, reflecting a general move towards diversification.

Total estimated gold deposits now stand at around 30m ounces - with 8m discovered last year. Given the attractive geology of the region, which is not unlike that of western Australia, industry pundits believe that further exploration will reveal considerably more.

"The gold rush seen in Tanzania by both artisinal miners and modern mining companies over the past two years parallels those seen in Canada, Australia and South Africa around the turn of the century," says Mike Skead, the chairman of the Tanzania Exploration and Mining Association. Over the next three years, Tanzania expects mining to boost foreign exchange earnings by 50 per cent.

Of late, however, the seeming terminal decline of gold prices to around $285/ounce has injected a note of caution into previous unfettered optimism. A number of projects have been delayed, and many of the service contractor which thronged the Tilapia at this time last year have gone home.

In the medium-term, however, there appears to be little doubt that Tanzanian mining is on a roll. A recent investment act, which crucially allowed the repatriation of profits, and the government's decision to allow duty-free and VAT free imports of equipment has created an investment environment that competes with anywhere in the world.

In fact, the huge incentives granted to mining companies – which have not been replicated in other sectors – has prompted some debate within government circles as to whether Tanzania should not do more to capitalise on an activity which accounts for somewhere between 1 and 4 per cent of GDP. Local governments are pressing to reap more benefit from regional activity.

"We've been asked to do some analysis to see how much we should take," says Patrick Rutabanzibwa, permanent secretary in the ministry of energy and minerals.

As things stand, the government will take royalties of 3 per cent once production comes on-line, plus 35 per cent corporation tax (after a 100 per cent capital write-off allowance). A new Mining Act, expected to be completed this year, should increase transparency in the sector, and also clarify health and safety issues. In the longer-term, Mr Rutabanzibwa is convinced that the real benefits will be more indirect, especially once Tanzanian entrepreneurs become involved in service operations.

"Our strategy is to encourage joint ventures, and to build up the service industry," says Mr Rutabanzibwa. "That's really the secret." Mining is also attracting investment in power lines, water and roads (which are poor, but improving), and Ashanti's processing plant in Geita is expected to act as a hub for the whole region.

Recognising that some public relations work is in order, Tanzanian Chamber of Mines, with the help of TEMA, hope to hold a two to three-day Mining Awareness workshop in early May to introduce Tanzanian Government officials, artisinal miners and other interested parties to large scale mechanised mining, and the benefits it brings to both the mining operators and the Tanzanian populace at large.

In the long-term, Mr Rutabanzibwa is very upbeat about prospects. "The whole place is very underdeveloped: we are at a similar stage to Kalgoorlie one hundred years ago," he says.

ZANZIBAR by Mark Turner

Large gulf between the reality and the holiday island idyll

It is mid-morning in late February, and a few milling tourists peer from a safe distance at the armed police surrounding Zanzibar town's court. The guns and nervous aggression do not tally well with the tranquil retreat they were sold in the brochures.

Yet the police, watchful lest 18 political prisoners held on treason charges without trial try to escape from the latest in an endless series of hearings, are every bit as Zanzibari as the islands' stunning beaches and fading clove fields.

Zanzibar, whose name suggests Arabian nights and ancient trade routes, is a troubled place, belying the air of coastal Islamic calm which pervades the shady streets of its ancient stone capital.

Political rancour, investment scams, drugs, resentment against mainland immigrants, grinding poverty – these are all present on a scale out of proportion to the islands' small geography. Small wonder that Zanzibar's youngest and brightest dream of little more than leaving.

The islands' former mainstay product, cloves, has never recovered from the commodity price slides of the 1980s, and looks unlikely to do so soon. Development has largely ground to a halt, especially after an aid freeze was imposed by western donors following the controversial 1995 elections, which the ruling Chama Cha Mapinduzi (CCM) party was widely believed to have stolen from their opponents in the Civic United Front (CUF).

Certainly, the local communities reap few benefits from packages paid for in Europe and infrastructure which markedly bypasses their villages.

The only other real progress has been in seaweed production, which has blossomed over the past decade, but even there investors warn that Mozambique and Madagascar are fast on Zanzibar's tail. The island's Export Promotion Zone lies idle, water is scarce and power is woefully inadequate.

It comes as no surprise, therefore, that Zanzibar is asking some searching questions about the kind of place it wants to be.

There are questions about the state of its union with the mainland – critics say that the current two government structure (one for Zanzibar, and one for both the mainland and the union) is fast heading towards a unitary state, and are calling for a three-government arrangement to take its place.

"As we reach the 35th year, the union poses a lot of problems. We want three governments – otherwise there is a danger this union will break," says Mohamed Ali Yusuf, spokesman for the CUF. His party is also calling for a level playing field ahead of next year's elections, with an independent or balanced electoral commission.

But in the current political climate, the CUF's voice is strongly supressed. The government takes a dim view of opposition activities and, despite some recent optimism that a Commonwealth-brokered agreement would be signed by both parties, there is scant dialogue between the parties.

This is not helped by the continued holding of political prisoners, which include a number of prominent CUF members.

Although the prosecution recently produced testimony from more than 50 witnesses to back its treason charges, few expect the case to be resolved soon. Commentators suggest that the government is using the case as a bargaining chip for negotiations with the opposition ahead of next year's elections.

These difficulties do not stop the islands from having lofty ambitions, however. "We are projecting in 20 years to be like Singapore," says Amina Salim Ali, the finance minister. Other possible models include Mauritius and Dubai. Mrs Ali says that her first goal is to bring telecommunications up to world standards – to that end she has entered into a partnership with investors from the United Arab Emirates for a $15m satellite system.

But the jewel in the crown would be the creation of a free port, which would allow imports duty-free and act as a shopping centre for east and southern Africa. Moves to create a free zone at the airport are underway, and a British consultant is undertaking a feasibility study.

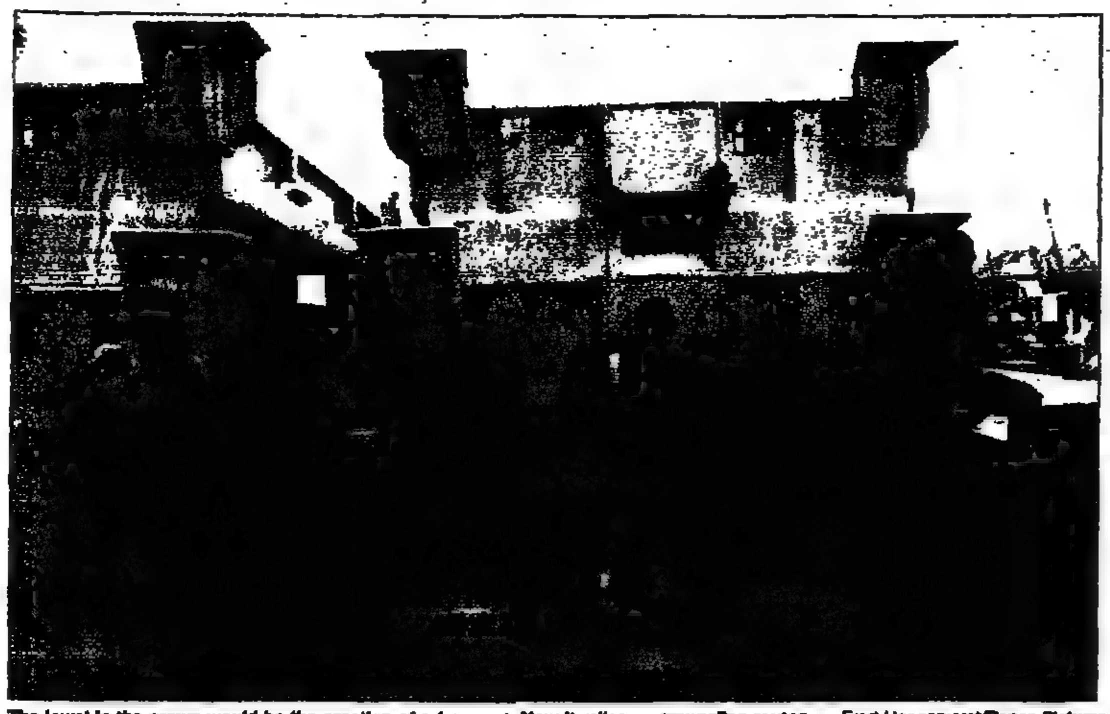
Nassor Mazrui, a prominent and outspoken businessman who heads the chamber of commerce, is also convinced that free trade, served by local businessmen, is the only viable future for the island.

"Zanzibar was a free port before, from 1892 to 1910. At that time revenue rose from 400,000 rupees a month, in customs duties, to 1.2m rupees because of services," he says.

The crumbling port has been badly hit by the union's recent decision to harmonise customs duties, which previously favoured Zanzibar. The port now largely relies on smuggling routes, which serve the entire east African coast.

As they wait for the more ambitious dreams of their leaders to materialise, most Zanzibaris have little to look forward to. Khelfan Khalfan, who represents the islands' non-governmental organisations, paints a worrying picture of declining services, unemployment and rising social discontent.

In that context, he is sharply critical of the western aid freeze, which he says achieves little save more hardship. "If you put pressure on the Zanizbar government, but say that Zanzibar is a part of Tanzania, it doesn't achieve anything," he says. "That kind of embargo is not effective. If these nations feel something is wrong, it is the Union that should bear the responsibility."



The jewel in the crown would be the creation of a free port. Now it relies on smuggling routes Fred Hoogervorst/Panos Pictures

INDUSTRY by Tony Hawkins

Sell-offs could fuel recovery

Industrialists want the government to go much further in reducing input costs and rationalising a complex tax system

Liberalisation "without discipline", as one government official calls it, has not been kind to Tanzania's manufacturing industry.

Once seen as the country's lead sector, manufacturing has become its Cinderella, growing at less than 2 per cent a year over the past decade and accounting for only 8 per cent of GDP, down from 11 per cent in 1970.

As in most African economies, value-added is dominated by a narrow range of consumer goods industries, targeting the domestic market. Beverages and cigarettes account for 30 per cent, food processing 16 per cent and basic manufactures – paper, packaging and non-metallic products – a further 30 per cent.

Although $500m was invested in textiles over 20 years the sector is in poor shape, contributing just 1 per cent of manufacturing value-added. Along with many other branches of industry, clothing and textiles have been the victims of smuggling, import duty evasion and the explosion of the second-hand clothing business.

Only 25 per cent of the installed capacity of 250m square metres of cloth production is being used while the garment side of the business has all but disappeared.

Despite this, officials predict a recovery fuelled partly by privatisation, along with planned measures to curb dumping and increase tax and duty compliance.

Although industrialists say such measures are welcome, they want the government to go much further in reducing input costs, especially electricity, improving infrastructure, notably roads and water supply, and above all rationalising a complex, cascading tax system.

An anonymous advertisement in a Tanzanian newspaper early this month, shows how taxes impact on business. The numbers (below) explain why tax evasion is rife and how business can earn more by depositing money in the bank.

Taxes impact on business

Item	Tanzanian shillings ('000)
Sales revenue	28800
Cost of imported goods	15000
Import duty [illegible]	[illegible]
Other [illegible]	[illegible]
Gross profit	[illegible]
VAT [illegible]	[illegible]
Operating costs	[illegible]
Pre-tax earnings	[illegible]
Corporate tax	[illegible]
Net profit	[illegible]

Source: [illegible]

As if these supply side and regulatory disincentives to business were not enough, industrialists face two other big challenges. Margins are being squeezed by the combination of sluggish domestic demand and relatively high real interest rates. Industrialists are calling on the government to shift the policy emphasis from curbing inflation to reflating demand.

Yet even if the policy stance is relaxed many firms could face a new threat in the form of the proposed East African "zero tariff" agreement due to take effect on July 1. While industrialists support regional integration, they warn that Tanzania risks being swamped by lower cost imports from Kenya.

Already the trade balance is hugely in Nairobi's favour, Tsh107bn of imports from Kenya compared with exports to Kenya of less than Tsh8bn. Industrialists and policymakers rightly fear trade diversion too – that Tanzanian consumers will end up paying more for lower quality imports from within the EAC than cheaper and better ones from Europe, Asia or South Africa.

Taxes are more onerous in Tanzania, while Kenya has the added advantages of lower utility costs, scale economies and a broader industrial base, all of which could mean that economic pragmatism will stand in the way of the political thrust for regional integration.

Tanzania could either invoke the "asymmetry" clause in the EAC agreement that would allow it to phase down its tariffs gradually rather than immediately or insist on exceptions covering "sensitive" industrial sectors.

In the medium term, industrial growth will have both to be export-led – at present only 17 per cent of output is exported – and fuelled by agricultural growth. Export processing zones are on the agenda, though many believe that under trade liberalisation these have outlived their usefulness.

Adding value to farm produce, such as foods, textiles and leather goods, for both domestic and export markets, and exploiting rising consumer incomes in agriculture looks a better bet.

Tanzania still offers a relatively wild experience: bird watchers flock to Lake Natron in Rift Valley Marc Schlossman/ Panos Pictures

TOURISM by Mark Turner

A complete holiday destination

Over-taxation is a problem for an industry at last beginning to realise its potential by combining beach and wildlife attractions

From the spectacular game reserves of the Serengeti Park and Ngorongoro crater to the peaks of Kilamanjaro and the crumbling island charm of Zanzibar, Tanzania's tourism industry does not need to lie when it claims to offers one ofthe world's most complete holiday destinations.

While the Kenyan park experience is often tainted by the sight of eight minibuses, bedecked with clicking sightseers, all crowding a single cheetah, Tanzania still offers a relatively wild experience.

The country's lack of internal strife is also a big selling point when compared with Kenyan violence and, as highlighted recently, the dangerous insurgencies on Uganda's western fringe.

But this is nothing new. Tanzania's potential in tourism has been touted for many years as a huge opportunity to boost foreign exchange receipts and to drive development of ancillary services.

The difference in the late 1990s is that the country at last appears to be fulfilling its promise.

Peter Mwenguo, director of marketing for the Tanzanian tourist board, says visitors have risen consistently throughout the decade, from 187,000 in 1991 to just over 400,000 last year.

With each visitor bringing in approximately $1,000, that amounts to foreign exchange receipts of $400m or more, he says.

Daudi Ballali, governor of the central bank, says that last year Tanzania received $500m, thanks to tourism, and receipts have been growing at 20 per cent a year.

The government aims to increase visitor numbers to half a million by 2000 but then to stabilise the number and focus on diversifying the product.

It recently put a moratorium on any new hotel development on the northern circuit, insisting that environmental protection is key to its long-term future.

"We are encouraging visitors to spend more money by increasing their activities, by moving into cultural tourism, in the Bagamoyo (slave market) for example. Unesco has helped on a project to develop the old slave route," says Mr Mwenguo.

Zanzibar is also upbeat, with visitors increasing at an average of 10 per cent a year for the past 10 years except for a small drop in 1998.

The central stone town has seen a flurry of activity over the past five years and the island's east coast has been rapidly developed by Italian hotel groups.

Some tour operators have expressed doubts about last year's figures for Tanzania following a number of cancellations due to difficulties with the heavy El Niño rains, a slump in nearby Kenya and the August embassy bombs.

But in the longer term the picture they paint is positive and offers, alongside the mining industry, one of the most striking examples that the past 10 years of liberalisation are reaping economic rewards.

The Serena hotel group, for example, financed by the Aga Khan, the International Finance Corporation and the Commonwealth Development Corporation, has over the past five years invested $32.5m in three lodges and a tented camp in the country's northern circuit and 7.5m in a hotel in Zanzibar.

It is now looking at opportunities in the underdeveloped southern game reserves at Selous and Ruaha.

"The future looks bright," says Jan Mohammed, managing director of Serena East Africa. He says Tanzania's immediate future is as part of an East African package, combining beaches and animals.

"We are already seeing combinations of Kenyan and Tanzanian itineraries which are doing rather well," he says.

But there are still difficulties. The border between the Masai Mara and Serengeti is closed – due to environmental concern, according to the government – and tour operators claim they are being stung by the recently introduced 20 per cent VAT and innumerable other taxes.

The Kimengelia border near Mount Kilamanjaro was also closed recently due to concern that tourists were entering without necessary documents.

"For three consecutive years we have pleaded with the treasury to address the plight of the tourist industry with regard to over-taxation," the Confederation of Tanzanian Industry said in a recent report.

"If this situation is not reversed, it is probable that in the near future Tanzania will not have its own air charter business or maintenance facilities. We will become wholly dependent on Kenya for such services."

Visas are expensive, and the country has no open skies policy with neighbouring Kenya.

Efforts to create an East African identity for tourism, as part of relaunch of the East African Community, have floundered amid bureaucratic disagreements and differences of philosophy.

Tour operators also complain about poor roads leading to the parks, which were decimated by the El Niño rains, and say the shilling's relative strength is eroding the country's competitiveness compared with southern Africa.

"The Tanzanian government has to provide an enabling environment for all to make sure we don't get into a situation where our product becomes uncompetitive," warns Mr Mohammed.

Nevertheless, the rehabilitation of Kilamanjaro airport should shortly improve access and the country has embarked on a big road-fixing programme.

If the southern circuit comes back to life, boasting the continent's largest game reserve and unparalleled viewing, Tanzanian tourism can look forward to a prosperous future.

A guide for the business traveller

Arriving in Dar-es-Salaam, the commercial capital of Tanzania, is quite a pleasant experience; the airport is basic, but efficient enough, and the town is relaxed. Security is not a major concern, although it is certainly worthwhile being on guard after dark.

For money, it is best to take dollars, which can be changed at varying rates in the many banks or bureaux de change. Credit cards are accepted in major hotels, but when paying for local services – if accepted at all – they tend to be charged at a premium rate. Do not rely on plastic alone.

Upon arrival in Tanzania, you will need a yellow fever certificate, and a visa – which it is advisable to obtain in the country of origin. Do take malaria precautions; do not drink the tap water. The climate is hot and but a pleasant sea air makes walking amid the greenery of the centre enjoyable. Most people will speak at least a smattering of English, but Kiswahili is the first language, and some basic phrases will be appreciated. A polite hello is 'habari', to which the response is 'nzuri'. You will be told 'karibu' (welcome), to which the response is 'asante' (thank you).

Taxis from the airport to town should cost about TSh10,000 in normal hours, and you can negotiate cheaper: a short hop around the town should cost between TSh1,000-2000, depending on whether you pick a taxi from outside your hotel or elsewhere: further beyond the centre should not cost more than TSH3,000-5000 a trip.

There are three hotels of business standard in Dar-es-Salaam: the Sheraton (with prices starting at $199, but with good facilities, tel 255(0)51 112416, fax 255(0)51 13981), the attractive, but out-of-town Sea Cliff (starts at $167, tel 255(0)51 600380-7) and the New Africa – conveniently located, but which may attempt to overcharge you for telephone bills and provides an irregular messaging and fax service (starts $190, tel 255(0)51 117050, fax 255(0)51116731). The town is not renowned for international quality restaurants, but a pleasant meal can be had at one of the various establishments at the Slipways complex, 15 minutes out of town. The Sea Cliff has a well-respected restaurant; for Chinese try the Hong Kong, or the Rickshaw.

On Zanzibar, the Serena Hotel is beautifully-situated but pricey, starting at $195 (tel 255 (0)54 31015, fax 0811 3331700); try also the attractive Tembo hotel (a single starts at $75, tel 255(0) 54 33005 fax 33777), but where telephone calls have to be routed through reception. Other hotels have opened in the stone town, and are worth a visit. In Mwanza, the hotel of choice is the Tilapia Hotel ($70/night: 255 (0)68 500517, fax 255 (0)68 500141).

Travel around Tanzania's major centres is relatively easy. Air Tanzania (255 (0)51 844239 – reservations, head office 255(0)51 110245-8) and Precision Air (255(0)51 130800) offer a range of domestic flights, but are rather expensive. Be prepared, however, for bumpy runways, hot waiting rooms and delays. Travel to Zanzibar is easy via one of the numerous ferries (starting at 8 am) which leave from Dar harbour. The journey lasts two hours, and will cost from $30-40. You will need to go through customs again at Zanzibar port.

The basic tip for doing business in Tanzania is to have patience. The investment centre, although designed as a one-stop shop, can be extremely unhelpful, especially if you are a small operation. Also, be wary of incentives offered – some businesses have discovered to their cost that generous packages on paper disappear when it comes to implementation. It is advisable to look for a local partner. ation. When planning a budget, estimate what a similar operation in Europe would cost and double it – costs spiral (whether official or unofficial).

Time to focus on strengths and centres of excellence

By providing a more coherent vision of the future, the new regional development agency could provide the region with a once in a lifetime chance to re-launch itself and capitalise on recent successes. **Sheila Jones** reports

The brave new world of regional government dawns tomorrow.

Its devolved powers may be limited, but the north west's business and political leaders hope the new regional development agency, which comes into being formally next week, will unleash the enthusiasm and expertise to promote the region in the European league of competitiveness.

The government has charged RDAs with the task of developing economic and social strategies to take England's nine regions into the millennium. The challenge is to lift skills, employment, investment and competitiveness with sustainable regeneration and development. England's regions can no longer afford to lag behind the best performers in Europe, says Richard Caborn, minister for the regions.

For the north west, the task is particularly difficult. The region has suffered from years of industrial decline and while there are many bright spots in the regional economy, the north west must also tackle some of the hardest regeneration challenges in the country.

Inner city deprivation continues to cast a shadow in Manchester and Liverpool, despite revival and development in both those cities. In Cumbria, relative wealth in parts of the region contrast with high unemployment rates in some of its old industrial areas.

The economic downturn of the past 18 months is also taking a hard toll, particularly in manufacturing industries, such as engineering and textiles, while the region's exporters are suffering from profit margins cut to the bone. Restructuring and cost cutting among bedrock employers, such as chemicals and pharmaceuticals, could bring further job losses.

Yet, if the north west has lost much in the past, there is a feeling that much can now be gained. The region remains a net creator of jobs despite the downturn. It has won substantial investment in service industries in particular. The north west has become the UK market leader in the call centre industry, for example, with thousands of jobs created in Chester, Liverpool, Warrington and Manchester.

Niche manufacturers, from food processing to electronic engineering and specialist pharmaceuticals, are building markets at home and abroad. The north west has also gained confidence from the renewed commitment to the region of two of its biggest employers: Ford on Merseyside and Vauxhall in Ellesmere Port, both of which are expanding production.

"There are lots of opportunities and we need to concentrate on our strengths and centres of excellence," says Chris Clifford, north west director of the Confederation of British Industry. "There is also a need to encourage reskilling and retraining. People accept they are not going to get jobs for life and that because they have spent the past 10 years in manufacturing it does not mean that is where the next job will be. It probably won't. It might be in a call centre."

Inward investment in the region jumped to record levels last year, with projects worth more than £200m creating 12,000 jobs. More jobs have been created with development and infrastructure projects in cities such as Manchester, where £700m has been invested, most of it private money, in the city centre rebuilding programme since the 1996 IRA bombing. The figure is expected to reach £1bn by next year.

Yet the region still suffers from relatively low earnings and low levels of value added employment, and this is seen as a central issue for the RDA.

Regional unemployment remains above the national average, rising against the national trend in January to a claimant count of 5.3 per cent, against 4.6 per cent nationally. Manufacturing employers in the region warn there may be more job cuts to come, although there are signs the worst is over.

The north west has one the highest concentrations in the country of higher education and management training establishments which are increasingly building links with business and industry. The region also has strengths in communications and distribution, centred on Manchester Airport and the motorway hubs; retailing, which has seen high levels of investment in recent years in Manchester

Richard Caborn: England's regions can no longer afford to lag behind the best performers in Europe

in particular; business and financial services, which have vibrant centres in Manchester, Liverpool and Chester; and tourism, with its coastal resorts and historic cities.

Yet manufacturing remains important to the region, providing jobs and wealth directly and along the supply chain. The region needs to do all it can to retain its big industries such as chemicals, says Mr Clifford. However controversial, the region has successfully attracted and retained large employers, such as Ford, with aid from European Union structural funding, and other support such as the government's single regeneration budget.

Terry Cook, regional director of the Chambers of Commerce, agrees that the region must focus on its strengths. But he adds: "If we are going to move the region forward, we must stop trying to do everything. We should do just the things in which the north west has a distinct comparative advantage. In the long run, it may be that that is not going to be textiles or even the automotive sector."

The north west will still have to run if it is catch up with other English regions in terms of skills and output and if it is to compete with Europe's most competitive regions. The creation of the RDA provides a "once in a lifetime" chance to make a change, says Lord Thomas of Macclesfield, former managing director of the Co-operative Bank and chairman of the north west RDA.

Nothing much will happen overnight. Most of the RDA's first annual budget is committed to projects already under way. And there are some worries about the time it is taking to get the RDA up and running since work began informally last year.

First, it has to merge parts of English Partnerships and Inward, the regeneration bodies, and the Rural Development Commission, and establish good day-to-day working relationships with the government office of the north west. Mike Shields, chief executive of the north west RDA, says the task of getting the RDA's component agencies working together is critically important if the agency is to operate effectively in future.

The north west, one of the biggest RDA regions, has an annual budget of more than £200m. The hope in the region is that the agency will, at the very least, bring a more coherent vision of its future and a greater focus on its most pressing tasks.

The region's business leaders are counting on the RDA to listen to the business community and to respond to its aspirations and needs. Already, the RDA has begun a series of meetings with industrial sectors and business groups to assess the state of the local economy and industry.

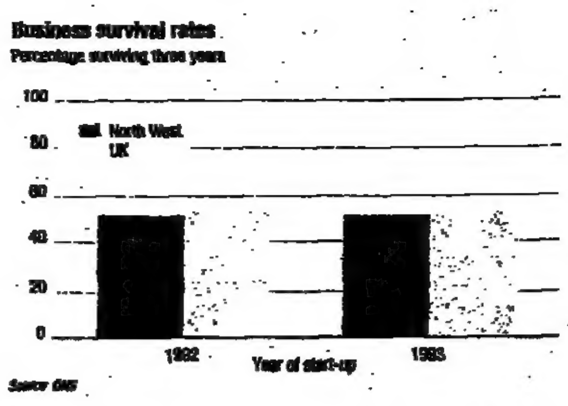
This is an important strand of its work, says Mr Cook, who believes the agency must understand the make-up of the local economy before it can set strategies. Business itself has to create benchmarking of standards to compare and compete with other UK regions and beyond, he says.

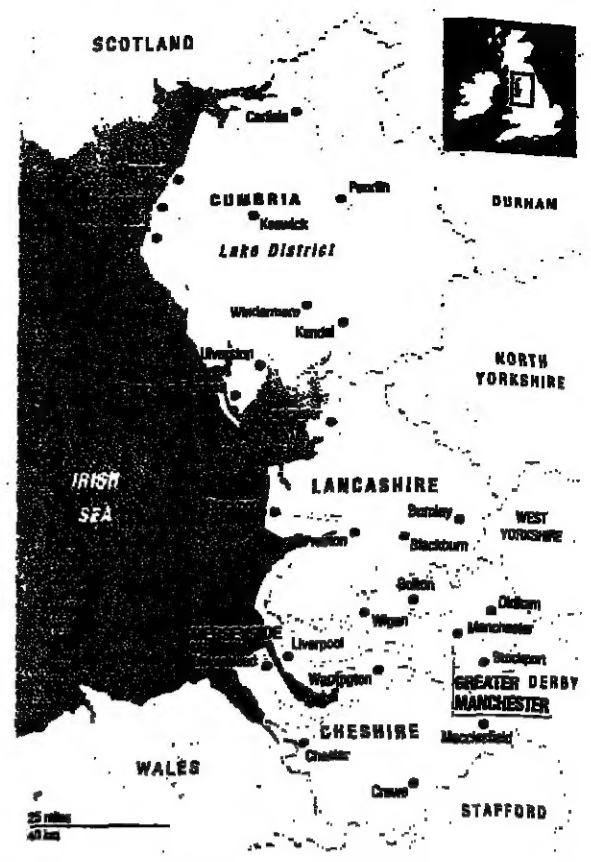
Chris Clifford warns that the region has to be realistic about what can be achieved in the RDA's early days. "It is not going to make any real impact until it has established a track record and that will take 12 to 18 months."

But he is clear about the priorities: "Rationalising business support services for small and medium-sized companies would be a huge improvement," he says. "We have a plethora of support services for SMEs – 70 in the north west at the last count. They represent the engine of growth in jobs and wealth creation and we have got to nurture them."

The RDA also needs to "beef up" initiatives such as

Continued on Page 2





RETAILING by Sheila Jones

Ambitious newcomer has fired up the whole sector

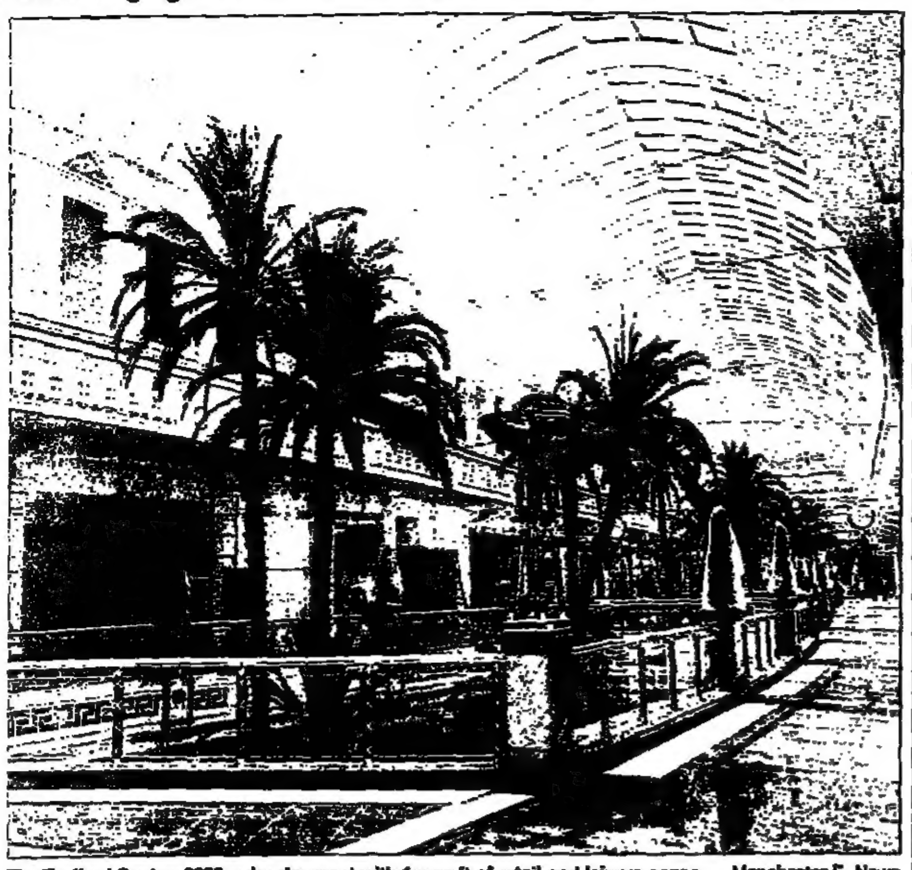
The Trafford Centre is encouraging other centres to re-examine their positioning

Nothing fires up the retail sector like the arrival of an ambitious newcomer. When Peel Holdings, the property group, finally won approval for the development of one of the UK's biggest out-of-town shopping centres on the outskirts of Manchester, retailers braced themselves for the onslaught.

High streets across the region would lose business, analysts said. Even in Yorkshire, there was talk that shoppers might be prepared to cross the Pennines to visit the glittering new Trafford Centre, a £600m development with 1m sq ft of retail and leisure space.

The early signs are that the gloomiest predictions may have been overdone. Trade has suffered, particularly in smaller retail centres, but the impact so far has been less than feared in a market that is flat across the UK, according to retailers.

The Trafford Centre itself, which opened in September, has drawn a less spectacular crowd than expected, according to analysts, although the centre says it is on target for 30m visitors a year.



The Trafford Centre: £600m development with 1m sq ft of retail and leisure space — Manchester E. News

Whether or not the new centre is poaching customers from local high streets, it has at least forced other centres to re-examine their positioning. It has given retailing "a kick up the backside", says Gary Davies, professor of retailing at the Manchester Business School.

"The sector had become dull and now you've got towns like Stockport building atriums and all sorts of things. In Manchester, we've now got a Ferris wheel. It gives the place a bit of a buzz."

Shopping can no longer be separated from leisure, says Prof Davies. "You have to talk these days about the two combined because these big centres have a neat way of combining shopping with cinemas, ice rinks, restaurants, bars and all of that."

Big city centres are following suit, helped by the enthusiasm of cinema operators, among others, for town centre sites. In Manchester, for example, UCI is opening a 20-screen multiplex in the new Printworks retail and leisure development in the city centre.

"Anything that is going to get people out of the house instead of sitting at home watching the television is going to be good for the local economy," says Prof Davies.

In Stockport, the town centre has been blitzed with posters in a £75,000 marketing campaign to counter the Trafford challenge, and about £3m is being spent on town centre refurbishment this year.

"We have been very proactive," says Angie Took, town centre manager. Retailers in Stockport say that sales are holding up well in the circumstances. In Warrington, about £5m is being spent on revamping the town centre, which was predicted to lose more than 20 per cent of sales in the first few years after the Trafford Centre opened. The impact has been "far less" than expected, says Tony Fitzgerald, the town centre manager.

In Manchester city centre, one of the strongest retail centres in the region, trade dropped 15 per cent in October on the year before, says Gordon McKinnon, city centre manager. But there are already signs of a strong bounce back, he says.

In December, sales were down by 12 per cent and by January and February combined, the figure had dropped to 6.5 per cent. "There is a very clear trend of shoppers returning and we are confident we will see a massive swing back later this year as the rebuilding of the city centre [following the 1996 IRA bomb] comes to fruition. We will have the largest Marks and Spencer store in the world, and other developments, such as the redeveloped Corn Exchange and the Printworks complex. There is an awful lot to be enthusiastic about."

In Liverpool, traders are doing "no worse or better" than anywhere else in the country, says Layth Bunni, director of the Liverpool City Partnership. "But we cannot be complacent. If you look at the way the MetroCentre in Newcastle developed, trade was flat and below target over the first few years, but then began to build up in the third and fourth years."

Eddie Cottrell, senior surveyor with DTZ Debenham Thorpe, agrees it is early days for the Trafford Centre, which did not get "the huge impact on day one that was expected".

Some tenants, such as Selfridges, he says, have yet to get the measure of the Trafford Centre customer. Mr Cottrell also points to the slow take-off at other out-of-town centres which are now flourishing.

Nonetheless, he says, some retail centres near the Trafford complex, such as Bolton and Altrincham, are suffering. "The impact was anticipated to go as wide as Wigan, Stockport and Warrington, but it has been quite localised." Smaller centres around the M60, such as Urmston, Swinton and Eccles, are also suffering.

Cities such as Chester and Liverpool have also had to worry about the challenge of the Cheshire Oaks factory outlet in Ellesmere Port on the Wirral.

The 300,000 sq ft outlet is the biggest of its kind in Europe and attracts 4m visitors a year. It sells end-of-line and surplus stock at discounts of up to 50 per cent in brand name goods such as Levi, Nike and Next.

High street brand names are increasingly shifting stock to factory outlets where they can sometimes get better margins than in their own high street sales. "It helps margins when times are tight," says Richard Doidge, a retail analyst with Colliers Erdman Lewis.

Mr Doidge says local centres have actually benefited from the influx of visitors to Cheshire Oaks. "Factory outlets add to the retail spend because people go to them for a day out instead of going to the beach or a theme park. And while they are in the area, some will spend time in Chester or in the town centre nearby."

Some of the big retailers say there are signs that spending in the north of England is slower than in the south, particularly in areas that have suffered big job losses. Yet some northern outlets, such as Boots in Manchester and Next in Liverpool, are outperforming many outlets elsewhere in the UK.

Eddie Cottrell argues that the north west, more than any other region outside of London and the south-east, has "the strength and depth" to grow.

"The region has everything in terms of retailing and the story of the Trafford Centre is not going to be one of doom and gloom."

PROFILE
MIKE SHIELDS

Regeneration is name of the game

Squeezing life out of urban decay is Mike Shields' stock in trade. Mr Shields, the first chief executive of the north west regional development agency, has his own record to live up to. A recruit from the public sector, he led the revival of Trafford Park, a large and once-thriving industrial estate that had spiralled into decay.

Before then, he helped to promote the regeneration of Manchester's run-down docklands. Both jobs were seen as hard tasks in areas that displayed the worst symptoms of urban and industrial decline. Today, 1,400 companies employ 46,000 people in Trafford Park.

In docklands, Salford Quays is now seen as a chic place to live and work. But can Mr Shields apply his art to the wider challenge of the north west region?

"I think everything I have done is relevant to this job," he says. "That does not mean I'm expert in everything that needs to be done. I am first to recognise that. But it's almost as if everything has been pointing to this job."

Twelve years ago, when Mr Shields was appointed chief executive of the now-defunct Trafford Park Development Corporation, he said he believed the blight of the industrial park was comparable with problems elsewhere in the region. "The North is littered with obsolescence like we have here, although perhaps on a smaller scale," he said at the time. "If we succeed, then maybe there will be lessons which will be good for the North as a whole."

Mr Shields wants to apply those lessons now. He believes that nothing happens overnight; making the RDA work is a long-term project. "The first thing I want to do is better understand the region. That will be a never ending process," he says. "Some of the first priorities for the RDA are housekeeping issues that won't interest people out there but which are very important."

That means bringing together the four organisations that will comprise the RDA: the government office, the Rural Development Commission, and the regeneration agencies Inward and English Partnerships. "It is very important to me that I get the organisation properly set up and integrated and that there is one organisation and not a collection of four."

Another lesson from Trafford Park days, says Mr Shields, is the need to build partnerships between the public and private sectors. Critically, Mr Shields believes the RDA has to provide the right policy framework and strategic goals to appeal to private sector investment and employment.

"It's no good, for example, simply exhorting a business to take on the long-term unemployed unless you create circumstances that ensure they get the right people to run their business."

The process of regeneration has to be nudged along. "Trickle down is a myth," he says. "It does not happen. You have to make it happen. You have to work to win jobs, especially in high unemployment areas and in the inner cities where it is a real challenge."

Setting out the region's economic strategy will be the RDA's single most significant task. "It is the bedrock of everything we will do."

But he adds: "We are not going to spend months and months redefining the problems. We will use all the work that has already been done, assessing competitiveness and pointing to the problems: the fact that GDP per head is only 90 per cent of the UK average; the fact that unemployment is higher than elsewhere; that there is major social exclusion in areas; that the growth of SMEs is below the national average and so on.

"These problems are all documented. What I want to do, having defined all of that clearly, is to concentrate on the causes. There is a danger of treating only the symptoms."

Its success depends on ensuring that "all the major players out there buy into that process and feel ownership of the outcome".

Shields: making the RDA work is a long-term project — Martin Rickett

People have to be brought behind regional objectives. "If we try to do it on our own, then we will not succeed," he says. "There has to be something in it that everybody wants to achieve and objectives that are understood and accepted. There will be arguments and difficult decisions and the RDA will have to grasp that."

The north west agency will work alongside the other two northern RDAs in the north east and Yorkshire and the Humber in areas such as developing long-term trade and transport strategies across the north, from Liverpool on the west coast to the Humber ports in the east.

"There is common ground between the northern regions and we have concluded there is much to be gained by working together. We shouldn't be reinventing the wheel so if we can learn from each other, then great. Why not? If they manage to develop a mechanism for tackling a problem in Leeds then why on earth shouldn't we tap into that?"

Mr Shields is conscious of worries that the new RDA could become just another layer of government. "We really have to guard against that. But, at the moment, there are four organisations that will become one and that in itself ought to be more efficient." The important thing is to get the policies right and to take the north west to "the forefront of the new industrial revolution the way we were at the forefront of the first one".

This means building up the "high skills and high knowledge" requirements of new and growing industries and making the most of the region's academic centres.

"Higher education is hugely important in the north west. There are 900,000 higher education students in England and 150,000 of those are in the north west. That's a huge resource."

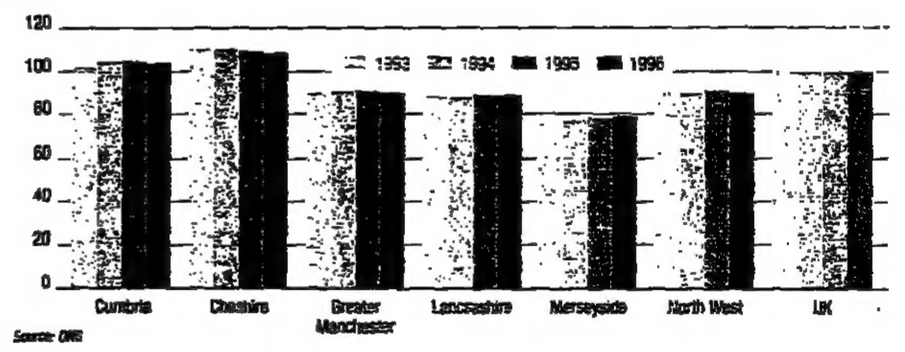
Ultimately, Mr Shields believes the new agency will help to give the north west a voice in Europe. "Most of the European policies in areas such as the economy, social exclusion and so on are regionally based. We have got to have a strong and coherent voice in Europe, not just in the UK, so that the priorities defined in Europe relate to the problems that the north west is facing. A voice in Europe is going to be more and more important."

It is unlikely, however, that the north west will see revolutionary change under Mr Shields' stewardship. It is not his style.

"My attitude in life has always been: get the policy right. Spend the time you need to get it right, then focus on what you need to do to make it happen," he says.

Sheila Jones

GDP per head
£ per head (UK=100)



Source: ONS

Time to focus on strengths

Continued from Page 1

the government's New Deal employment programme, so that they work effectively for the unemployed, business and the needs of the wider economy. The success of New Deal in drawing in the socially excluded in areas such as the inner cities will be especially important to the overall health of the region, he says.

Rivalries between cities and sub-regions within the north west are being set aside in pursuit of the region's regeneration goals, according to the RDA's leaders. More important, they say, will be the inter-regional co-operation that will be needed if the north west is to achieve important strategic goals such as developing the regional transport network.

Most business leaders in the north west despair about the prospects of an early improvement in the west coast rail route, owned by Virgin Trains, which they blame for their missed appointments in London. But there is optimism and enthusiasm for co-operation with other regions to strengthen road links. The north west is especially eager for a cross-country network linking the busy ports of Liverpool on the west and the Humber on the east.

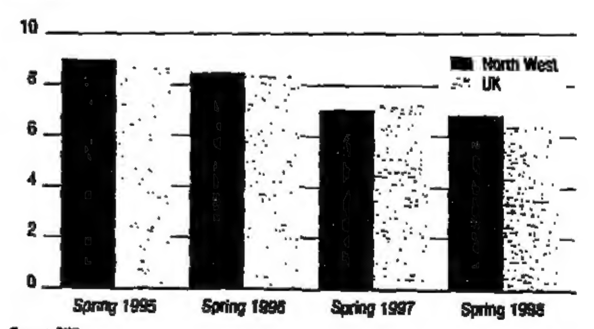
All three northern RDAs, the north west, north east and Yorkshire & Humberside, are already pinpointing other strategic areas on which they might co-operate. They are also keen to take a more active regional role in the European Union, where countries such as Germany and France have a more effective regional presence, mainly as a result of their own more regional and federal government structures at home.

Devolution in England provides precisely the chance for greater involvement in setting regional strategies within the EU, says Mike Shields. The priorities defined in Europe, such as social exclusion and regeneration, relate directly to the problems the north west is facing, he says, and a place at the European table "is going to be more and more important."

The RDA will be judged a success if it provides the region with leadership and demonstrates it is not just another layer of government, says David Taylor, chief executive of Enterprise, the regeneration company, and an adviser on the regions to John Prescott, the deputy prime minister.

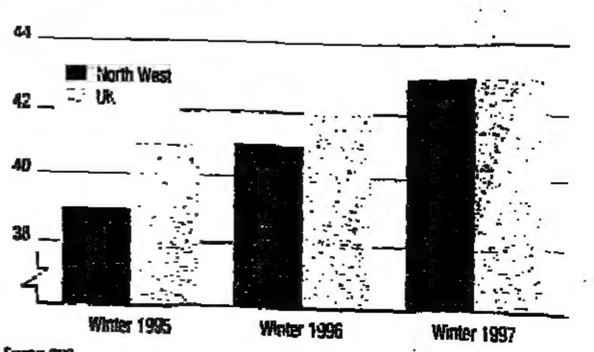
"It will also need to address the region's biggest problems. There is a tendency to leave them until last but they have to be dealt with first," he says. "The RDA will need to be a businesslike, efficient and focused organisation. If it becomes just another quango, that would be a disaster."

ILO unemployment rate
Per cent

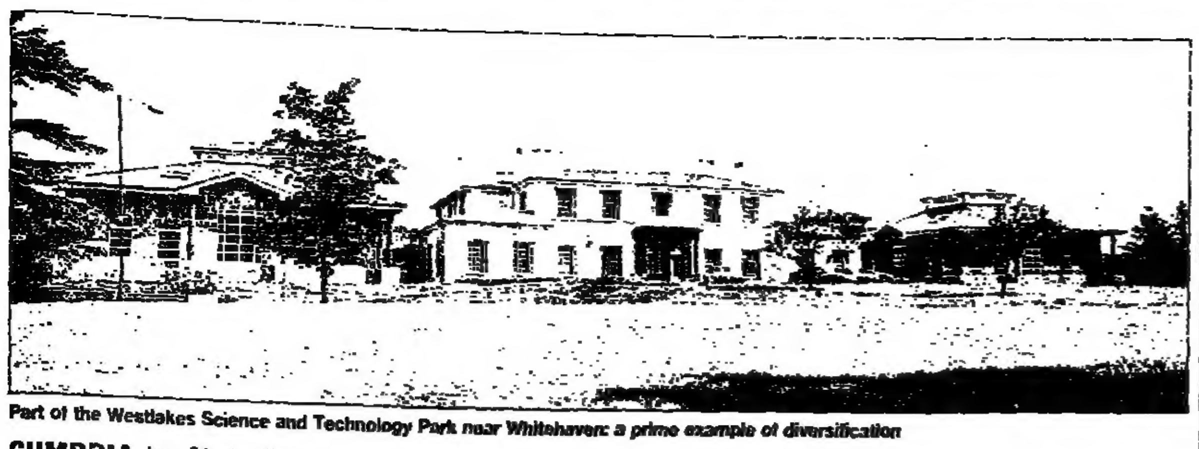


Source: ONS

NVQ level 3 or equivalent
Percentage of the workforce qualified



Source: ONS



Part of the Westlakes Science and Technology Park near Whitehaven: a prime example of diversification

CUMBRIA by Chris Tighe

Some beautiful, peaceful scenery – and a heritage

Despite heavy job losses, the area still has the highest proportion of people in the north west working in manufacturing

The airport poster advertising Cumbria's attractions for inward investors struck a chord with Mancunian managing director Gerry Mills as he flew home from a skiing holiday in the Alps last winter.

Immediately, he rang the Cumbrian Inward Investment Agency to discuss his business expansion plans. "I *want to be in England's* Switzerland," he told the agency.

In this instance, England's Switzerland turned out to be a defunct iron works site, most recently used for "dolly blue" washing aid manufacture, at *Backbarrow*, between Kendal and Barrow-in-Furness.

The proposal by Manchester-based Ultratools for a *new 100-job plant making* machine tools has raised planning issues; the Lake District National Park planning committee will determine its outcome next month.

The project, on a site just *within the National Park*, epitomises two key aspects of Cumbria: beautiful scenery and an often overlooked industrial heritage which, in updated *form*, is still vitally important today.

Despite its scenic reputation, Cumbria, *even after* heavy job losses in recent years at submarine maker VSEL and British Nuclear Fuels, still has the highest *proportion of its people of* any north west county working in manufacturing – more than 24 per cent against a north west average of about 17 per cent.

It is inhabited by fewer than 500,000 people – 7 per cent of the population of north west *England* – but occupying 48 per cent of the region's land area.

While keen to strengthen its economy by capitalising on its natural beauty, Cumbria wants to kill the misconception it is all about sheep, lakes and fells. Jack Stopforth, Cumbria Inward *Investment Agency chief* executive, points out that the county has leading industrial employers such as Glaxo Wellcome, United Biscuits, *Kimberley Clark*, Pirelli, Northern Foods and Nestlé, as well as VSEL and BNFL.

"We want people to realise *this is a lovely place to make* profits as well as a lovely place to live and bring up a family," he says.

Despite its diversity, Cumbria's economy has suffered a period of relative decline since the late 1980s; its gross *domestic product per head* has fallen from 120 per cent of the national average in 1987 to 104.4 per cent. This decline is particularly due to *industrial* restructuring in the west of the county and in the Furness peninsula.

Cumbrian unemployment rates highlight the great contrasts within its economic and social structure. While Keswick and Penrith have *unemployment rates of 2 per* cent or less, Workington, Whitehaven and Barrow, at more than 7 per cent, are well above the *national* average.

In 1998, for the first time this decade, the county's average unemployment rate *over the year was slightly* above the national average. And West Cumbria faces more upheaval. There is, for example, uncertainty over *German nuclear fuel reprocessing* contracts for Sellafield and over the future of Albright & Wilson, a big Whitehaven employer.

Cumbria is fighting to retain assisted area status for the West and Furness, currently designated as Intermediate Areas. Reten*tion of European structural* funds support post-1999 is also a key concern for these areas and for the Cumbrian uplands.

"Economically, the prospects are mixed," says David Cole, the county council's director of economy and environment. "There are strenuous efforts to grow the economy of Cumbria, but there are clearly problems in the *farming sector*."

The county's economic strategy is to build on opportunities for growth, especially in high value-added manufacturing, in innovation and in leading edge technology, as well as in the *service sector*, including tourism.

A prime example of diversification is Westlakes Science Park near Whitehaven. *Part-funded by BNFL*, Westlakes is so far a £20m development and £10m of further investment is planned. It *houses a postgraduate* research institute, a scientific consultancy, a company offering practical and financial support for potential *new technology start-ups* and business premises. It currently has 30 companies on site, employing 500, and aims to foster another 1,000 *jobs*.

After years of debate over whether Cumbria should ally itself with north east or north west England, the gov*ernment ruled it should join* the north west Regional Development Agency.

While some in Cumbria were disappointed, there is also some relief a decision has been made, so the county can focus on raising *its profile*.

Its sub-regional assembly, intended to give it a cohesive voice, has already begun operating. Of 13 north west RDA board members, two are from Cumbria.

"I think we have got out of it the best deal we could have expected," says Bill *Minto, sub-regional* assembly chairman and the leader of Cumbria county council.

For the arts, Cumbria remains allied with the north east, and in inward investment it has chosen to be represented in South-East Asia by the Newcastle-based Northern Development Company, soon to be subsumed into the north east RDA.

Cumbria, insists Mr Stop*forth, is not a far-flung* corner of the north west or the north east. "We are at the heart of northern Britain."

PROFILE
BLACKPOOL

Making gains from Labour's cold shoulder

When the Labour party decided against Blackpool for its party conference in the millennium year, the town accused the party of turning its back on the UK's favourite seaside resort.

Blackpool had long been a traditional Labour venue and *the party says it may return*. But in snubbing Blackpool it may have done the resort a favour.

"The decision cleared a lot *of people's minds*," says David Cam, director of Blackpool Pleasure Beach. "It woke people up to the fact that what Labour was *saying was that Blackpool*, frankly, is not good enough for us and we don't intend to come back until it is."

The UK's seaside towns *have declined in recent* decades as holiday tastes have changed and domestic competition has grown, with niche operators taking an increasing *share* of an expanding leisure market. Blackpool *is* still the world's most successful coastal resort, says Mr Cam, but it *is hindered by "a very old infrastructure"*.

Regeneration efforts in recent years have sought to diversify the economy and to *create* jobs in a town that has sharply fluctuating employment patterns and *relatively high* unemployment.

"We have been carrying out regeneration work, but we had not directed our *efforts specifically at* tourism," says Graham Essex-Crosby, the council's chief executive. "But this is our main industry. It is why people come to Blackpool. There has now been a coming together of like *minds saying we need to* devote resources to it."

The industry accounts for more than 75 per cent of economic activity in the town. About 17m tourists visit Blackpool every year, spending more than £500m, but the numbers have failed to keep pace with the general increase in leisure spending in the UK. The *town is conscious of two* main weaknesses: its business is highly seasonal, and too few of the town's traditional attractions have *invested sufficiently to meet* today's demand for high *quality* services.

While companies such as Pleasure Beach have *invested heavily in new rides* and better facilities, many of the old bed and breakfast establishments fall below the standards now demanded by *tourists. And facilities* such as the famous Winter Gardens conference centre have failed to keep up with rising standards in their market.

A new regeneration strategy, published last month, has emerged from the debate over where the town is going. It acknowledges that the resort has to improve its facilities and infrastructure if it is to survive. It also draws *together the efforts and aspirations of all participants* in the town's development *through the Blackpool* Challenge Partnership.

The council, *local* businesses, the voluntary sector and the town's retailers and leisure operators have all signed up to a strategy that puts tourism at its centre and that seeks to market a resort that is open for business all year round. It is a joint effort that means individual operators *will combine forces to* market the resort.

"We are clearly in *competition with each* other," says Marc Etches, managing director of Leisure Parcs, which last year bought the Winter Gardens *and Blackpool Tower from* First Leisure. "But there is a rationale that we all understand that is about getting people to Blackpool. *Once they are here, of* course we are keen to get them to our own venues."

The town's exposure to seasonal trade was brought *home last year when* appalling summer weather saw visitor figures plunge by about 20 per cent. Other factors have given the *partnership's efforts extra* impetus. The change in ownership of the Winter Gardens and the Tower brings with it a promise of *substantial* investment and new ideas.

A further drive for change came last *month* when the government urged Britain's *coastal* resorts to shape up for the millennium. "What the government says mirrors and supports what we are all about," says Mr Essex-Crosby.

He hopes the government's view of the *resorts will lend weight to* Blackpool's efforts to win UK and European Union *regeneration funding*. The town is bidding for £25m from the government's single regeneration budget for a five- to seven-year *development programme. It* also hopes to take advantage of a change in *EU rules* that, for the first time, recognise tourism as an industry that may qualify for Objective 2 regeneration funding.

"The door has been opened and we need to get Blackpool through that door," says Mr Essex-Crosby.

David Cam argues that the importance to the economy of resorts such as *Blackpool* is still not fully recognised. "It has been described as a *Candy Floss economy*, as if in some way it is a pretend industry," he adds.

"If it isn't steel, it is somehow not real. Yet, *tourism is one of the* UK's few growth industries. It is worth £53bn a year."

Blackpool acknowledges that its market has changed since its heyday. *The* resort will continue to focus on its core market of family visitors, but it will also target niche markets and the growing demand for conference facilities, short-stay visits and packaged deals.

Marc Etches says he believes there is a commitment across the resort to improve facilities *and to be innovative in its* mix of shows, attractions and services, but he believes *the brash product that is at* the heart of Blackpool is not about to change.

"The future of Blackpool is in doing what it does, but it *needs to do it better*."

Sheila Jones

Regeneration: a pedestrian scheme attracts pavement cafe culture

PROFILE
ROE ACRE

A leader among the dyeing pack

Five years ago, Grimble Mill in Lancashire appeared to be on its last legs. Sharply *declining* orders threatened the survival of a small textiles business that had been around since the early days of the industrial *revolution*.

Roe Acre, the company that owns Grimble Mill, was not alone. Textiles producers have battled for decades *against competition from* cheap imports and from an increasingly advanced industry in the developing world.

The *latest squeeze on* manufacturers, felt acutely in the textiles industry, has brought thousands of job cuts and narrowing profit *margins*.

But Roe Acre believes it is well-placed to survive the downturn. It will do so by investing in staff and new *technology* and concentrating on a niche sector, dyeing and finishing, says David Procter, the chief executive.

Roe Acre's owners, Maurice and Joe Menaged, brothers in their 80s, brought in Mr Procter in 1994 to turn the company *around*. It had already survived a severe shake-out of the industry in the early 1970s, but the business had lost direction.

"The company was not in good shape," says Mr Procter, who had worked in manufacturing and in the venture capital industry, and had experience in both assessing and running hard-pressed businesses.

Too little investment, overexposure to a small number of large customers and a lack of focus had undermined quality and sales. "I went to some of the old customers and it was quite a horrifying story. They made it clear to me that there were serious problems with quality and with customer service."

A further problem was that the market Roe Acre was aiming for was too small to support the capacity of the site. But it was "definitely saveable", says Mr Procter. His immediate task was to raise funds to pay creditors. He sold assets that were not working for the company, including weaving sheds and other units that were either standing idle or not making a profit. Some units were brought back into production.

"We recovered quite a considerable amount of money to satisfy the banks and to invest in dyeing and finishing, which was supportable because it was so close to its customer on the high street."

About 200 staff left the company with the sale of the weaving unit, and *employment in the core* business was trimmed from 106 to 97. Employment today stands at 115 and the company hopes to expand.

About £3m has been invested in the past four years. New equipment includes a computerised colour and chemicals dispensing unit, which helps to ensure colour quality and continuity. Fabric drying ovens have been upgraded and new high-pressure jet dyeing equipment installed.

About £80,000 has also been *spent on environmental* upgrading. In some cases, the company has held costs down by buying and adapting second-hand *machinery*.

"We have also invested in people," says Mr Procter, who has brought in senior staff from elsewhere in the industry.

A quality control specialist runs a new testing laboratory at the plant which has been accredited by two of the factory's end-users, Arcadia and Next, the clothing retailers.

Sales have jumped by 75 per cent in the past four years and the company is now profitable, says Mr Procter. *Turnover last year* was £5.5m with capacity up from 270,000m to 460,000m a week, including polyviscose fabrics, household textiles and fashion fabrics.

Roe Acre buys giant rolls of raw fabric, mainly from Asia, Africa and Europe, and *processes the material to* produce clean, dyed and finished fabrics for sale to clothing and household fabric manufacturers in the UK. The strength of sterling has worked largely in its favour, cutting the cost of its raw materials.

The investment in new technology has given the company the flexibility to respond to the increasing demand for new fabric blends and finishes, particularly in the ever-changing fashion industry, says Mr Procter. It is also capable of swift changes in fabric widths and runs for customers that want to ensure they are not overstocked.

The company now *describes itself as an* innovator and market leader, rather than a follower in textiles technology. It has developed several new finishes, including a recent breakthrough in machine-washable cotton viscose Lycra, and it is capable of processing more than 120 *different* blends of fabric. Levels of quality, flexibility and fabric variety are equalled only in Asia, says Mr Procter.

Despite the company's new-found stability, Mr Procter warns that expansion plans and the company's ability to compete with other European producers depend, in part, on its ability to secure government support.

"I need to invest about £650,000 in the next 12 months to upgrade the site and take on 27 staff. To fund it myself would be extremely difficult when I am up against French and Italian producers which get much more support than we do."

Roe Acre is profitable, he says, "but not as much as it could be". Mr Procter has joined trade union lobbies of parliament to make the case for the British textiles sector, which unions say will lose 70,000 jobs in the next six years.

"You have to stand on your own two feet and that's fine," he says. "But we do not get the grants and low interest rates that our European competitors enjoy.

"People need the right equipment to give high productivity. We are allowing the industry to drift away."

Sheila Jones

David Procter: concentrating on a niche sector — Martin Rickett

PROFILE
MBNA

Chester gets the full credit from its star tenant

The US credit card company has acquired more than 2m UK customers and has cornered 10 per cent of the UK market

William Daiger: 'The environment is appealing' Jason Orton

When MBNA, the US credit card issuer, picked Chester as its UK base in 1993, it promised 800 jobs within five years if the project went according to plan. The £43m investment, with £7m in government support, was a coup for Chester and MBNA was a star tenant for its picturesque new business park on the outskirts of the city.

MBNA, a dominant operator in the US, wanted a share of the large and growing UK credit card market and it led the charge of the American banks into the UK.

The company's aggressive marketing and its focus on affinity cards (which affiliate to groups such as charities) has helped it to nibble away at its British competitors, such as Barclaycard.

Today, MBNA, which is based in Wilmington, Delaware, is one of Chester's biggest employers with 1,700 staff, most of them full time. In less than six years, it has become one of the UK's biggest credit card lenders, grabbing 10 per cent of a $45bn market and more than 2m customers.

Its growth has helped to fuel the increasing importance to the north west of the services sector, particularly in the customer service and call centre operations of the financial services *industry. Marks and* Spencer Financial Services, also located in Chester, employs about 1,500.

MBNA says it picked the north west of England partly because of the high concentration of universities in the region. Graduates account for 36 per cent of MBNA's staff, a high proportion compared with many other call centre operations.

The company says this reflects the quality of employment at the Chester base and their need for highly qualified staff. "These are not jobs where *everybody just sits on the* phones all day," says William Daiger, chairman of MBNA International. "We like to start people in telemarketing and customer satisfaction but it is normal to be in any one of four service areas. We rotate people from being on the phones to managing a section and we are able to keep staff turnover below 8 per cent."

Mr Daiger relocated to Chester along with a handful of US managers. The company was warned it was a tough market to break into, but its staff has settled in to Chester with as much ease, apparently, as it has built market share. "The only hurdle for me was the one every American faces: driving on the other side of the road and not liking roundabouts," says Mr Daiger. "We walked everywhere for the first few months."

The company did not need to be in London, he says. *"Wilmington in Delaware is* not as big as London or Birmingham, so we are comfortable in a city the size of Chester." The environment is appealing too, he says. "We have access to the mountains of Wales, to the Lake District and the Peaks, so we can do all the things we like to do, like golf and hiking. London is just a few hours away and we get over to Manchester from time to time, and to Liverpool for the Philharmonic orchestra."

Since arriving in Chester, MBNA has outgrown its 50,000 sq ft of custom-built headquarters. It has extended its own offices and spilled over into another building nearby. Growth has been especially strong in its affinity card market, where customers affiliate to a particular organisation. Royalties are paid to organisations, such as charities and sports clubs, for each new customer, and the club logo goes on to the card.

The company won 100 new affinity signings in the UK last year. In the sports sector alone, it has 650 affiliations globally, including *teams in US Major League* Baseball and the National Football League. In the UK, it has already signed up 10 premier league football teams, including Manchester United, Liverpool and Tottenham Hotspur.

"It has been very successful for us in the US with basketball, baseball and ice hockey and we are transplanting the idea here," says Mr Daiger. "It is growing very quickly." The company says that loan losses are significantly lower in the affinity market than in the rest of the loans industry. And it finds sports fans "extremely loyal" customers. "They are people who are proud of their team and they like to carry a card with the team's symbol on it." MBNA has also signed up all of Oxford University's colleges and it has won affiliations from charities, including the Worldwide Fund for Nature.

For the city of Chester, MBNA's continuing growth bodes well for future employment prospects. The company believes there is scope for further expansion in the UK and it is eager to build its share.

"I think we have a way of doing business. And there's a continuing upside in our business here," says Mr Daiger.

Sheila Jones

INNER CITIES by Alan Pike

Liverpool, Manchester pilot new deal for regeneration

An £800m initiative is aimed at increasing job prospects and lifting the standards of education and health as much as renewing poor housing

Manchester and Liverpool will be among the first places to pilot New Deal for Communities, an initiative of the government's social exclusion unit which aims to rewrite the rules of urban regeneration.

New Deal is intended to bring together local people, community organisations and the public and private sectors in the "intensive regeneration of small neighbourhoods". Unlike many previous schemes, it will focus as much on job prospects, crime, educational standards and health as the physical renewal of sub-standard housing.

And, again in contrast to previous schemes, it will be long-term rather than quick *fix. Although New Deal will* be confined to neighbourhoods of a few thousand people, a timescale of at least 10 years' activity is envisaged.

The government has allocated £800m over three years to launch the pilot projects for this "showcase for state of the art intensive regeneration". Manchester's bid was approved by the government last month, while Liverpool has a further two months in which to complete its proposals.

Liverpool: piloting New Deal for Communities initiative Colin Seere

Manchester's scheme, in Beswick and Openshaw, forms part of a wider regeneration strategy for the east of the city. The former Trafford Park urban development corporation stimulated regeneration west of the city centre, while expansion of Manchester airport has supported investment in the south.

The city council hopes the staging of the 2002 Commonwealth Games, with a new 50,000-seater stadium and *sports complex in east* Manchester, will be a similar spur to permanent regeneration there.

Covering a community of 4,772 households, the Beswick and Openshaw New Deal scheme will overlap with a number of other regeneration projects *already established or* planned for the area.

A Single Regeneration Budget scheme, managed jointly by Manchester and Tameside councils, is seeking ways of linking local people with existing jobs and new ones that the Commonwealth Games will offer. Plans are being completed for an Education Action Zone bid to raise attainment levels, and Manchester also forms part of a health action zone – premature death rates in Beswick are 50 per cent above the national average.

Liverpool's proposed New Deal scheme is in Kensington, the city's second most deprived community, which contains 4,250 households. A single grim statistic testifies to its high crime rate – there were four murders in the area within 12 months – and, in common with other New Deal pilot areas, it suffers poor quality housing, high unemployment and low education attainment.

Liverpool city council's *New Deal bid* describes another problem that is common to many of the inner city areas on which the New Deal will focus: the disappearance of local services.

"The shopping area is in decline," it says. "Traditional small shops have closed, leaving high num*bers of vacant and quickly* derelict properties and there is a lack of banks, building societies and other services."

Crime, training and employment, the property market and young people's concerns are issues that the Liverpool scheme will address as first priorities. Kensington is close to Wavertree technology park where large employers include Marconi Communications, Sony and Barclays Bank, and Liverpool city centre. This offers residents a good chance of employment opportunities close to their homes if skill levels can be raised.

The government wants New Deal projects to be managed in a collaborative way, a requirement that will be met in Liverpool through a "partnership of partnerships".

A new charitable company would be formed to deliver the scheme with representatives from local organisations and Liverpool Partner*ship Group, which links the* city's leading public and voluntary sector organisations.

Kensington, like Beswick in Manchester, already has considerable experience of regeneration programmes, including involvement in one of 11 local schemes in Liverpool that are being funded under the EU's Objective 1 programme for areas of multiple deprivation.

Prior public experience of so many schemes can be a disadvantage when new ones are started. The city's bid document acknowledges that low expectation and doubts over whether New Deal for Communities "will be different and will deliver" are barriers that have to be broken down.

Evidence that barriers can be broken down is provided by the experience of one of the north west's flagship regeneration projects, the renewal of Hulme in Manchester.

Hulme, primarily a building scheme involving the demolition of nearly 3,000 unsuccessful deck-access flats, was different in scale and purpose to New Deal. But its success was equally dependent on the partnership working and community involvement that New Deal will test to the full.

In "Trick or Treat", an analysis of the Hulme project, Rob Ramwell and Hilary Saltburn conclude that, in spite of many difficulties, its partnerships were "clearly a lot less imperfect than others" and contributed to the achievement of objectives.

A description by Ramwell and Saltburn of present-day Hulme also provides what might be regarded as the ultimate goal for New Deal. "Hulme has in many respects become normal. Children and cats can now be seen on the streets instead of packs of stray dogs. Ice cream vans ply their trade and, for the first time in years, milk and newspapers can be delivered. All these may be taken for granted elsewhere, but for most Hulme residents they were not even a distant memory."